**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN BURUNDI: A CASE STUDY OF**

**MUTUALITE D’EPARGNE ET DE CREDIT (MUTEC SA).**

**BY**

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**A RESEARCH DESSERTATION SUBMITTED TO THE SCHOOL OFBUSINESS ADMINISTRATION AND INFORMATION TECHNOLOGY IN PARTIAL FULLFILMENTS OF THE REQUIREMENTS FOR THE AWARD**

**OF THE DEGREE OF MASTERSOF BUSINESS**

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**UNIVERSITY**

# FEBRUARY, 2022

# DECLARATION

I, **MUJAKAZI JEAN BERCHMANS**, declare that this research dissertation is my original work and has not been presented for a degree in any other University or higher institution of learning. Where other people’s work has been cited, due acknowledgement has been made.

Sign: ……………………………………..… Date: ………………….……………………

**Mujakazi Jean Berchmans**

# APPROVAL

This is to certify that this research dissertation has been submitted for presentation with my approval as the University supervisor.

Sign: ……………………………………….… Date: ..................……………………..

**Mrs. IRENE NABUTSALE OJAMBO**

**Supervisor**

# DEDICATION

I dedicate this research book to the Almighty God who has enabled me to carry out research successfully.

I extend my gratitude to my supervisor Mrs. Irene Nabutsale Ojambofor her professional guidance and advice throughout my project.

I appreciate my family, particular my parents, my dear wife, brothers and sister, my aunty Madam Dorcella Bazahica and Dr. Gordien Ngendakuriyo who contributed my Master degree materially and immaterial.

To the entire academic staff of the Nkumba University, School of Business Administration thank you for your great support.

Kindly accept my appreciation in one way or another. May the Almighty God bless you all.

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# ABSTRACT

The study was set out to examine the role of internal control systems and financial performance in microfinance institutions in Burundi, using a case of MUTEC Microfinance. The study was based on three objectives: to examine the effect of risk assessment and control procedures on the financial performance of MUTEC Microfinance; to assess the effect of control environment and information and communication on the financial performance of MUTEC Microfinance and to examine the effect of monitoring on the financial performance of MUTEC Microfinance.

The study used a population of 80 selected from MUTEC Microfinance staffs and a sample of 66 respondents was selected using Neumann’s formula (2000). Descriptive and explanatory research designs were employed and both quantitative and qualitative approaches of data collection were used. Data were analyzed using descriptive statistics, Pearson correlation, coefficient, regression analysis, and analysis of variance (ANOVA); where the statistics proved that R2=0.790; significance level was found and the hypothesis testing proved that there is a positive relationship between internal control systems and finance performance in MUTEC Microfinance.

Correlation analysis revealed that there is a significant and positive relationship between ICS and financial performance in MUTEC Microfinance. It was revealed that, risk assessment and control procedures (r=0.869, P<0.005), it was also evidenced that control environment and information & communication (r=0.872, P<0.005) and monitoring activities presents (r=-0.888, P<0.005) indicates that the relationship between ICS and Financial Performance of MUTEC Microfinance.

The study concluded that risk assessment and control procedures improves financial performance of MUTEC Microfinance; effective control environment and information and communication and monitoring have enhanced financial performance of MUTEC Microfinance.

The study recommends that the Board of Directors of MUTEC Microfinance should monitor and supervise to ensure that all accounting staff complies with accounting regulations and requirements to ensure proper implementation and compliance with accounting standards and principles. MUTEC Microfinance should develop a mechanism to incorporate relevant feedback from the various stakeholders into their internal control system.

# CHAPTER ONE

# INTRODUCTION

# Background of the study

This study examines the role of internal control systems in the financial performance of microfinance institution in Burundi. It focuses on Mutualité d’Epargne et de crédit as a case study.

The study was important because of there is a need to understand the contribution of internal control systems in the MUTEC microfinance. The sample study was significant because Mutualité d’Epargne et de Crédit (MUTEC) is one of the biggest financial institution in Burundi with 850 000 number of customers offering financial services that include Collecting savings and providing micro credit to people excluded from the traditional banking system, Offer financial services to people of low and middle income, supervise the beneficiaries of the Credits.

According to Boyle, Cooper and Geiger (2004), internal control is a process designed to provide reasonable assurance regarding the achievement of objectives for reliable financial statement, effective and efficient operations and compliance with applicable laws and regulations. The core service area of MUTEC microfinance Limited is service delivery to the public which makes the entity accountable to the public. Internal control system is conceptualized in terms of internal control activities, control environment, monitoring, risk assessment and information and technology, whereas financial performance is conceptualized in terms of reliable accountability, timely reporting and compliance with the laws, regulations and guidelines.

According to Auditing Standard Board (2013), internal control system is a measure of checks and balances, a method and procedure instituted by an organization to conduct a systematic approach that management can rely on to achieve its intended goals. The internal control system evolved steadily with the progress of management especially at the end of World War II. It is conceptually similar to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal control system is derived from management consulting and public accounting with the implementation in United States of the Sarbanes- Oxley Act (2002). The Internal Control system’s growth accelerated, as many internal auditors acquired the skills required to help companies and public institutions meet the requirements of the tales(Sarbanes- Oxley Act 2002).Effective internal control system prevents waste and inefficiency in the production line and processes of goods and services. Effective internal control systems assist in the formulation and implementation of quality procurement procedures that helps to factor justification for requisition at proper lead-time, quantity and at lowest prices (Ngechu, 2004).

The key concepts for this study are internal control systems and financial performance. The relationship between internal control System and financial performance is that internal control System is a tool to achieve good financial performance and good financial performance is the ideal output of internal control system. Internal control system in the study is measured using factors such as control environment, risk assessment, information and technology, monitoring and control activities.

Financial performance refers to the degree to which financial objectives being or has been accomplished and is an important aspect of [finance risk management](https://www.simplilearn.com/resources/finance-management-articles). It is the process of measuring the results of a firm's policies and operations in monetary terms (Greashin, 2009). It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Good financial performance is measured by timely accountability, reliable reporting and compliance with laws, regulations and guidelines. Mwindi (2008) reports that internal controls are processes designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness, efficiency of operations and compliance with applicable laws and regulations.

The microfinance sector in Burundi is made up of several stakeholders operating either in the informal sector or in the formal sector. Bujumbura, on the eve of the celebration of the 3rd anniversary of MUTEC Micro Finance by its members, the Burundi News Agency Realties Press carried out a guided tour in the branches of this financial institution located in the provinces of Bujumbura-Mairie, Bubanza, Muyinga and Gitega.The first visit concerned MUTEC SA Agency located in Bubanza province. This agency located all of the modern market of the province of Bubanza; it began its activities on September 1, 2006 and counted until the hour 770 customers, revealed to Burundi Realities Press Agency, the manager, Monsieur Cyrille Kandikandi.

Being relatively young and having suffered more than 10 years of war, with few investments and external aid, except just of late, mainly, from the FORCE Fund, the microfinance sector in Burundi is still underdeveloped and relatively weak in the management of its components. In a country where 80% of the population is rural, and where 90% of the population has no access to classic financial services, consolidation of this segment of the financial system in Burundi constitutes a priority. It should be pointed out that in the absence of a sectoral chart of accounts, the statistics provided by the MFIs in Burundi are not quite reliable and it is difficult to use them for comparative purposes. Many of the MFIs are not computerized, and they continue to use an archaic, fully manual accounting system (United Nations, 2010). Additionally, the MFIs do not have independent auditors to check their accounts, and this constitutes one of the main weaknesses in this sector.

Permanent access by the adult population to a set of financial products and services offered by formal and sustainable financial institutions, governed by adequate regulations that are diversified, affordable and adapted to the needs of the population, and used by the latter for the purpose of contributing to the improvement of the conditions of their socioeconomic life is the national financial institutions inclusion strategy’s ultimate goal (NFIS, 2015-2021).

# Statement of the Problem

Internal control systems are very vital to all organizations either public or private because they enhance the quality of service delivery (Olumbe 2012).The government of Burundi through National Financial Inclusion Strategy has continued to urge all microfinance institutions to adopt internal control system in order to attain the set goals and objectives. The findings of the 2012 national financial inclusion survey shown that only 12.5% of the adult population have a deposit account in a formal financial institution.

Despite the above, microfinance institutions have been seen with the resulting incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery resulting into less revenue generated, collusion, fraud, embezzlement by employees, lack of transparency of all forms, and poor accountability of cash and all business assets which has greatly led to the closure of some microfinance institutions in Burundi (Bank Republic of Burundi, 2010).

The rural population in particular is excluded from formal financial networks. Other strata of the population have difficult access to financial services and products. These are women, youth and micro and small entrepreneurs (NFIS, 2014). This study therefore seeks to examine the effect of internal control system on the financial performance of MUTEC Microfinance.

# Purpose of the study

The purpose of the study was to examine role of internal control systems and the financial performance of microfinance institutions in Burundi focusing on Mutualité d’Epargne et de Crédit (MUTEC).

# Objectives of the study

The objectives of this study were;

1. To examine the effect of risk assessment and control procedures on the financial performance of MUTEC Microfinance.
2. To examine the effect of control environment on the financial performance of MUTEC Microfinance.
3. To examine the effect of monitoring on the financial performance of MUTEC Microfinance.

# Research questions

The study was guided by the following research questions:

1. What are the effects of risk assessment and control procedures on the financial performance of MUTEC microfinance?
2. What are the effects of control environment on the financial performance of MUTEC microfinance?
3. What are the effects of monitoring on the financial performance of MUTEC microfinance?

# Research Hypotheses

**H0**: There is no relationship between internal control system and financial performance of MUTEC Microfinance.

**H1:** There is relationship between internal control system and financial performance of MUTEC Microfinance.

# Scope of the Study

This addresses the content, geographical and time scopes. The study investigated the effect of internal control systems on financial performance in microfinance organization, a case study of MUTEC microfinance, and studying already existing literature, and finding out new literature on the research topic.

**Content Scope**

The study seeks to analyze the relationship between the internal control systems and the financial performance of microfinance institutions in Burundi, focusing on Mutualite D’epargne Et De Credit (MUTEC SA). The study focused on the effect of risk assessment and control procedures on the financial performance; effect of control environment and information and communication on the financial performance and the effect of monitoring on the financial performance of MUTEC Microfinance.

**Geographical scope**

The study took place at MUTEC Microfinance limited located at Avenue de la Croix Rouge No26 in the city of Bujumbura in the country, Burundi.

**Time scope**

The study covered a period from 2016 to 2019. This period is selected because it is within that period that the MUTEC registered a lot credit risks.

# Significance of the Study

Burundi is seeking ways to rebuild its financial sector; this study may provide significant ideas that can contribute to the management of the microfinance industry. This study aims at examining internal control systems, specifically in microfinance. This research may increase awareness about the systems of management of microfinance institutions.

It may also stimulate the country as well as other private sector’s agencies to establish policies and provide adequate solutions that contribute to the creation of a favourable environment, control activities and information systems for players in the financial sector.

This research may be another area of reference for MUTEC Microfinance management to enable management take an informed decision about its internal control systems.

The study may serve as a stepping stone to future researchers on the same or similar topics by suggesting areas that need further studies to be conducted. Also, successful completion of the study shall enable the researcher to partially fulfil the requirements for the award of a Master’s degree in Business Administration offered at Nkumba University.

The study may add much to the body of knowledge in the field of financial management in general and the literature shall be beneficial to the society at large as it may add much to their level of understanding.

# Arrangements of the study

The study is arranged into nine chapters and presented below;

**Chapter One:** This chapter presents the introduction of the study, background of the study, purpose of the study, objectives of the study, research questions, the significance of the study, and the arrangement of the study.

**Chapter Two:** This chapter presents the literature survey, literature review and conceptual framework.

**Chapter Three:** This chapter contains the research methodology that was used to accomplish the research undertaking outlined above. It presents research design and data collection tools and techniques.

**Chapter Four:** This chapter speaks about the demographic information of MUTEC microfinance. It refers to socio-economic information expressed statistically, also including employment, education, income, marriage rates, birth and death rates and more factors.

**Chapter Five:** This chapter relates the effect of risk assessment and control procedures on the financial performance of MUTEC Microfinance.

**Chapter Six:** This chapter discusses the effect of control environment and the information and communication on the financial performance of MUTEC Microfinance.

**Chapter Seven:** This chapter discusses the effect of monitoring on the financial performance of MUTEC Microfinance.

**Chapter Eight:** This chapter talks about the harmonisation between the independent variables and the dependent variables.

**Chapter Nine:** This last chapter is about the summary, conclusion and recommendations.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

## This chapter is presented in three key sections. Section one deals with the literature survey which is concerned with local studies that have been conducted in the same area. Section two dealt with the review of theories and models in line with the study objectives. Section three presents the conceptual framework which is a model that links the study variables.

# Literature Survey

This section presents the various studies carried out in Burundi in the field of this study with the view to identify gaps of the existing studies which this study attempted to close.

Locally, a study by conducted by Simiyu (2011) on effectiveness of internal control system in higher institutions of learning in Kenya clearly indicate that Institutions of higher learning face quiet a number of challenges during internal controls in performance like struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources. It is for this reason that this study sought to investigate the effects of internal controls on financial performance of institutions of higher learning in Burundi. In his study did not mention how risk assessment and control procedures on the financial performance of MUTEC Microfinance. Therefore, the current study seeks to fill the gap.

Ndiwa (2014) studied the assessment of Internal Control System on Financial Performance in tertiary training institutions in Burundi. Many public institutions in Burundi are faced with poor financial performance which in extreme cases has led to the closure of some of them, despite having the necessary resources to run them. The study, therefore, endeavoured to investigate the persistent poor financial performance from the perspective of internal controls which had hitherto been ignored. The general objective of the study was to establish the relationship between internal control and financial performance in tertiary institutions in Burundi. The study was limited to the East African Leadership University of Muyinga. The findings indicated that most respondents were of the view that indeed there was a relationship between internal control and financial management. In his study, Muyinga did not mention how control environment and information and communication on the financial performance of MUTEC Microfinance. Therefore, the current study seeks to bridge the gap.

Microfinance institutions in Burundi from time and again been faced with high operating costs to provide financial services to the poor people and Small and Medium Enterprises (Micro banking Bulletin, 2002). And as such, are unable to meet their obligations when they become due usually resulting from poor cash flow planning, failure to monitor portfolio quality closely and take action when necessary. Portfolio quality has deteriorated more rapidly in Microfinance institutions than in traditional financial institutions due to the short-term and unsecured nature of micro lending and micro loan portfolios (Turame Community Finance, 2018) due to unsecured nature of micro lending, micro loan portfolios which are volatile. IMF Report (2001) most MFIs in Burundi had large portfolios in arrears, with overdue loan repayments stretching back into the distant past mainly because lending policies were usually poorly enforced and systems to track and manage arrears.

# Literature Review

This section reviews literature related to internal control systems and financial performance in the petroleum industry outside the Burundian context. Financial performance aspects have been discussed based on the theories, models and practical recommendations outlined in other research works done elsewhere outside Burundi.

# Theoretical Review

Internal control has been defined in different research as the framework that is limited to control environment, risk assessment, control activities, information and communication and monitoring. For an institution to achieve on all these factors then it is essential to ensure that the internal control system is efficient enough to implement the above factors (Gjerdrum & Peter, 2011).

The frameworks within any organization affect profitability when effectively implemented with good and strong internal control systems. There are various theories that interpret the internal control system and its effect on organization performance (Van Ryn& Heaney, 1992). The various theoretical approaches which can be used to outline financial performance of organization are classified into; agency theory, institutional theory, system theory, transaction theory, stewardship theory and stakeholders theory. This research will discuss internal control systems and financial performance in microfinance organization: a case study of MUTEC Microfinance.

**Systems Theory**

As cited in Keraro (2014) the theory was propounded in the 1940s by Ludwig von Bertalanffy (biologist) and advanced by Ross Ashby in his study introduction to Cybernetics in 1956. Bertalanffy (1968) keenly noted that real systems were interested in, and collaborate with their surroundings additionally they can secure subjectively new properties through development, bringing about constant advancement. He argued that this theory focused on the arrangement of and the correlation between the parts which connect them into a whole instead of reducing a company or an organization to the properties of its departments or units. Such an organization determined a system that is independent of the concrete substance of the elements (for example, the various departments such as finance, accounting, human resources, research, and development). Underling the different disciplines, providing a basis for their unification are the same concepts and principles of organization. Hartman (2010) observation was that systems theory enlightens a leader with a clear picture on how to analyse the environment in which the organization is operating without giving a particular theory about how an organization should be run. He also observed that with the acknowledgment of systems theory, all associations comprise of preparing data sources and yields with interior and outer frameworks and sub-frameworks accommodating in giving a useful outline of any association. Smit and Cronje (2002) observed that a framework is an accumulation of parts bound together to finish a general objective. When a unit of the system is omitted, the structure of the system also changes.

The effect of the systems theory in an administration is that managers take a gander at the organization from a more extensive point of view. Systems theory has another viewpoint for managers to translate designs also, events in the work environment. They recognize the various components of the organization, and, in particular, the interrelationship of the components, for instance, the coordination of central administration with its programs, supervisors, and workers, among other variables. In customary administration honesty, managers normally took one section and concentrated on it. They then moved every attention to another component. The challenge was that an organization could, for example, have a brilliant central administration and the perfect set of teachers, but the departments didn’t synchronize at all (Rue & Byars, 2004).

In using the systems theory approach, the study recognized that there are many possible roles of governance in the strategic management of companies. Bertalanffy (1968) saw organizations as a composition of its elements which together make a “whole”. The key identifiable institution variables, based on this theory were the people, leadership, structures, processes, resources (human, financial and others), communication systems, position, and power. The systems theory views all these as the parts that, if coordinated strategically, will lead to organization effectiveness. The systems theory upholds the idea that the different parts of an institution should not be managed in isolation. Relating the preceding discussion of the research undertaken, the systems theory thinking helped the researcher to visualize the fact that what may seem as an isolated internal problem is part of an interconnected network of related issues in internal control systems of microfinance institutions.

Institutional Theory

Meyer and Rowan (1977) and DiMaggio and Powell (1983) are examples of works that led to the origin of this theory. Recently institutional theory has gained influence and provides a contradistinction divergent illustration on the reason why new control structure and practices develop in organizations. There are claims of institutional theory becoming a vital theoretical perception in organization theory and accounting (Dillard, Rigsby & Goodman, 2004). Reasoning both technically and economically for comprehending company management and the structures that get incorporated in and explained at institutions is challenged by Institutional theories. Internal control systems are aimed to introduce new ways of doing work and procedures and they are not required to be seen as rational economic cost-benefits, they are however provide different aspects which indicates that organization develop and design structure and processes. Institutions by definition refer stability but are subject to change processes, both incremental and discontinuous. Appropriation of organizational practices and environmental arrangement is an institutional process subject to the effect of three pressures or forces coercive, normative and mimetic as suggested by Institutional and neo-institutional theory. This theory also insinuates that these strengths can support organizations to acquire similar strategic actions hence leading to homogeneity of the organizational (Adebanjo, Ojadi, Laosirihongthong & Tickle, 2013).

The interests of shareholders have been over time, especially through efforts by the government and professional bodies. More specifically, there has been increased pressure on management to guarantee that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals (Christopher, Sarens & Leung, 2009). This study draws on institutional theory, which basically focuses that organizational management and control structures have a tendency to adjust to social expectations. The theory, therefore, advances the argument for enhanced corporate governance in the management of organizations resources.

## Stakeholders Theory

The theory identifies stakeholders and defines the performance outcomes as a satisfaction measure. The theory is based on organizational management and business ethics that seek to address values and morals in managing an organization. This theory classifies the following in a way that employees, shareholders, suppliers and customers form the primary stakeholders and government, trade associations and political groups form the secondary stakeholders who have an indirect relationship with the firm (Ali 2017).

Stakeholder’s theory critique that analytics focus on how to resolve internal auditing challenges which is too narrow and shareholders are the only ones who make investments in the firms. For internal controls the decisions of stakeholders have an impact on all operations. Considering the importance of financial performance and internal control this theory adds knowledge on the findings on how stakeholders can benefit through strict adherence to internal control systems as an advantage to financial performance (Saraph et al., 1989).

This theory has multiple distinct aspects that mutually support each other in terms of description, instrument and normalcy (Phillips, Freeman, & Wicks, 2003). The theory best explains character and behaviors of an organization thus including how these organizations are run. This theory is thus relevant to this study in that it shows how the microfinance are run. In knowing the activities progress of an organization then one is able to monitor and know the activities that lead to profits or losses. For any business to be successful it has to create value for its customers and people who matter to this organization (Beasley, Chen, Nunez, & Wright, 2006).

**Concept of Internal Control System**

Internal control system of an organization’s structure is the work and authority flows, people and management of information systems which is designed to help the organization accomplish its goals and objectives. The objectives of internal control of an organization are related to the reliability of the financial reporting, feedback on time which shows the achievement of strategic operational goals (Kieso, Weygandt, & Warfield, 2010). McPeak, Pincus, & Sundem, (2012) say that there are three objectives that guide management in designing of an effective internal control system, that is, preparing financial statements for investors, creditors and other users. The second objective of an internal control system is to encourage efficiency and effectiveness of operations that is effective use of resources. Lastly the internal control encourages compliance with laws and regulations. The performance of an organization is determined by how well and acceptable the internal control is and how it affects the financials of the company.

An internal control system consists of the various methods and measures designed and implemented within an organization to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and enforce prescribed managerial policies. An organization that achieves these is typically one with good corporate governance. This means managing an organization in a fair, transparent, and accountable manner to protect the interests of all the stakeholder groups. It improves the quality of financial reporting through business ethics, effective internal controls, and corporate governance (KPMG International, 2019).

Internal control describes the policies, plans, and procedures implemented by management of an organization to protect its assets. Usually the people involved in this effort are the entity’s board of directors, the management, and other key personnel in the organization. Internal controls are strategies set by the companies to ensure the integrity of financial and accounting information, meet operational and productivity targets, and transmit administration arrangements all through (Asiligwa, 2017).

Internal controls comprise of the considerable number of measures taken to ensure the end goal of; securing its assets against waste, extortion and wastefulness; guaranteeing precision and unwavering quality of bookkeeping and working information; guaranteeing consistency with the strategies of the association; assessing the level of execution in every hierarchical unit of the association (Ngwenya, 2013).

According to Ondieki (2013), fraud is a major enemy of profitability. Control measures are structured in place to avert, detect and eliminate fraudulent occurrence thereby creating an atmosphere for profitability. Effective Internal control system support profitability and growth of an organization by protecting the general assets and resources thereby averting cases of loss. Strong internal control system help to prevent, minimize, transfer or eliminate risks, which may affect a profitable operation (Mugo, 2009).

Most organizations no longer set up internal control system as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out (Kenyon and Tilton, 2006). Further, organizations are making it a point of duty to train, educate, and sensitize their employees on how to use these internal control systems since its effectiveness depends on the competency and dependability of the people using it. All these control actions ensure that any risks that may affect the company’s ability to achieve its goals are appropriately avoided and should occur at all levels and in all functions of the organization ((Doyle et al, 2005).

There are three major classifications of internal controls; preventive, detective, and corrective. Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omission or malicious act from occurring. The detective controls are used to detect and report the occurrence of an omission, an error or a malicious act. Finally, the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem (Singleton, 2006).

**Components of Internal Control Systems**

The 2013 COSO Report is important because it established a common definition of internal control for assessing control systems, as well as determined how to improve controls. According to the report, controls can serve many important purposes, and for this reason many businesses look at internal control systems as a solution to a variety of potential problems (such as dealing with rapidly changing economic and competitive environments, as well as shifting customer demands and priorities). According to the COSO report, an internal control system should consist of these five components: the control environment, risk assessment, control activities, information and communication, and monitoring.

**1. Control Environment**

The control environment establishes the tone of a company and influences the control awareness of the company’s employees. It is the foundation for all the other internal control components and provides discipline and structure. Factors that describe the control environment of an organization include; the integrity, ethical values, and competence of an organization’s employees; management’s philosophy and operating style; the way management assigns authority and responsibility as well as organizes and develops its employees and the attention and direction provided by the board of directors (COSO, 2013).

Kamau, (2014), in his study, the findings revealed that most manufacturing firms had a control environment as one of the functionality of internal controls of the organization that greatly impacts on the financial performance of the firms. The results also revealed that the staffs were part of the control environment who were trained to implement the accounting and financial management systems, the security system identified and safeguarded organizational assets.

Kinyua (2015) studied the effect of internal control environment on the financial performance of companies quoted in the Nairobi Securities Exchange. The findings indicated that there is a positive significant relationship between internal control environment and financial performance, which corroborates with the findings of Mawanda (2008), states that institution which have enforcement of proper internal control systems will always lead to improved financial performance.

**2. Risk Assessment**

It is not possible or even desirable to install controls for every possible risk or threat. The purpose of risk assessment is to identify organizational risks, analyze their potential in terms of costs and likelihood of occurrence, and implement only those controls whose projected benefits outweigh their costs. A general rule is: The more liquid an asset, the greater the risk of its misappropriation. To compensate for this increased risk, stronger controls are required. The COSO report recommends the use of a cost-benefit analysis to determine whether the cost to implement a specific control procedure is beneficial enough to spend the money (Byaruhanga, et. al, 2014).

**3. Control Activities**

These are the policies and procedures that the management of a company develops to help protect all of the different assets of the firm. Control activities include a wide variety of activities throughout the firm and are typically a combination of manual and automated controls. Some examples of these activities are approvals, authorizations, verifications, reconciliations, reviews of operating performance, and segregation of duties. Through properly designed and implemented control procedures, management will have more confidence that assets are being safeguarded and that the accounting data processed by the accounting system are reliable (Byaruhanga, et al, 2014).

**4. Information and Communication**

According to Asiligwa (2017), internal control’s information systems produce reports that contain operational, financial and non-financial and compliance-related information and that make it possible to run and control the operation.

Managers must inform employees about their roles and responsibilities pertaining to internal control. This might include giving them documents such as policies and procedures manuals or posting memoranda on the company’s intranet and notice boards. This could also include training sessions for entry-level personnel and then annual refresher training for continuing employees. Regardless of the method, all employees need to understand how important their work is, how it relates to the work of other employees in the firm, and how that relates to strong internal controls. It is equally important that management understand the importance of keeping good working relationships between all layers of management so that employees feel safe communicating any possible problems they may find.

When this is the case, employees at all levels can actually enhance the effectiveness of good internal controls. Also, they will be much more likely to point out any problems they may detect, and corrective action can be initiated. For example, Whistle-blowing systems help employees feel safe communicating problems or suspected wrongdoing to management. However, many potential whistleblowers continue to struggle with reporting problems that they witness because they are not sure how to report what they know, or fear possible consequences of doing so. One solution to this problem is to outsource the whistle-blower system in fact; a recent survey of Chief Audit Executive’s reports that 60% of the organizations included in the survey have already outsourced their reporting systems (Baker, N., and April, 2008).

**5. Monitoring Activities**

Evaluation of internal controls should be an ongoing process. Managers at various levels in the organization must evaluate the design and operation of controls and then initiate corrective action when specific controls are not functioning properly. This could include daily observations and scrutiny, or management might prefer regularly-scheduled evaluations. The scope and frequency of evaluations depend, to a large extent, on management’s assessment of the risks the firm faces. It is usually accepted that internal control systems need to be adequately monitored in order to assess the quality and the effectiveness of the system’s performance over time. Monitoring provides assurance that the findings of audits and other reviews are promptly determined. (Theofanis et al, 2011), also notes monitoring of operations ensures effective functioning of internal controls system (Amudo & Inanga, 2009). Hence, monitoring determines whether or not policies and procedures designed and implemented by management are being carried out effectively by employees. According to Gerrit and Abdolmohammadi, (2010), Organizational performance encompasses accumulated end results of all the organization’s work processes and activities. Financial Performance measures in public institutions of higher learning can be financial or non-financial.

Basically internal control is meant to help an organization achieve its mission, vision and goals (Nuryanto & Afiah, 2013). But never the less internal control systems help the organization promote orderly, economically, efficient and effective operations and produce quality products and services consistent with the organization’s mission. Internal control also safeguards company resources against loss which may occur due to waste, abuse, mismanagement, errors or even fraud. Internal control is also a tool that enables management directives in terms of law and regulations frameworks and also contracts. Relatively internal control of financial institutions helps in maintaining and developing reliable financial and management data which gives accurate and timely reports.

## Effect of risk assessment on financial performance

Continuous assessing of the internal control system of an institution adversely affects its achievements and the goals of the institution. The assessment covers all risks facing the institution’s departments addressing any new or previous uncontrolled risks. Risk assessment is the estimate of the likelihood and impact of internal control risks from internal and external sources. The main objective of understanding risk assessment for a microfinance institution is to help the institution be able to administer and administrate risks that occur in the institution. Every organization faces both internal and external risks which are prone to assessment (Amudo&Inanga, 2009). Every organization internal control system should provide an assessment of the risks the organization is prone to. The organization identifies risks and then analyzes for the possibility of their effects. Once the risks have been identified its then the management responsibility to formulate an approach for risk management and decide on the internal control activities to be used to solve the risks and achieve the internal control goals and objectives.

## Effect of control procedures on financial performance

They are usually described as activities which form policies and procedures that help the management to ensure certain directives are made in a proper manner. Control procedures in an organization involve; performance reviews, information processing, physical controls and segregation of duties in the organization. Control activities are important in supporting qualitative efficiency for organizations which carry out activities that focus on examination. For microfinance organizations this activity refers to achievements of their overall objectives of the control activity (Bostan & Grosu, 2010).

## Effect of control environment on organizational financial performance

Control environment in any organization sets a tone for the organization’s influences of conscience of its people (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). Control environments form the overall structure and discipline of the internal control system. The control environment influences the integrity, ethical values, and competence of the management in the organization. The attitude of management should be geared towards improvement and values which form ethical business principles (Pany & Whittington, 2001). When an organization practices the right values then it is motivated towards its profitability since workers will work very hard in the best interest of the company (Berona, 2005). Integrity and ethical values of an organization enhances creditworthiness of the stakeholders and more so leads to increase in investments in such an organization. For a microfinance institution it is necessary to cultivate competence, knowledge and skills which will lead to accomplishment of the organizations objectives.

**Effect of information and communication on financial performance**

In the growing economy technology has become an essential tool for management in any organization. New technology is used by management to ensure the various business systems have a positive impact on the organization’s profitability and success (Laudon & Laudon, 2011). Information and communication technology in any organization facilitates the management with resources that help them make decisions on the current services and products that are relevant to the company. Selecting the appropriate products/services give the organization an advantage in the market that it’s dealing with (Laudon & Laudon, 2011). ICT is a very critical tool to internal control systems; it is usually in reference to proper functioning of all organization activities. Poor ICT infrastructures of any company may affect the organization from the management level to the lower staff hence making the organization prone to losses from all aspects. (Cescon, Costantini, & Rossi, 2013). ICT is an essential tool in internal control systems and it significantly influences organization’s profitability.

## Effect of Monitoring on Financial Performance

Monitoring is basically assessing any system or activity in an organization. The process of monitoring of organization’s profitability is done by assessing different activities and operations of the organization. (Gjerdrum& Peter, 2011). Monitoring is effective when done on timely basis and necessary actions done on time. Management monitoring is considered effective when the controls include considering whether the organization is operating as intended within the set conditions. Profitability of an organization can be monitored through assessing the organizations performance which may include the sale’s person compliance with the company’s sales policy (Sodan & Hadank, 2009). Monitoring requires resources in order to achieve its objectives. An organization must be ready to provide adequate financial resources to enable it to achieve the monitoring process. Monitoring in many instances poses a positive effect on profitability of any organization. This is argued in the basis that when an organization monitors its internal control system, then it is able to detect failures in different activities hence correcting them in good time and improving towards great success which leads to high profit margins (Demiroglu& James, 2011).

Further, internal control includes various techniques and measures that are practiced by the management to guarantee smooth and monetary working of a business substance (Kumar and Sharma, 2005). Hence, it is intended to give sensible affirmation that the entity's general targets are being accomplished (Ejoh and Ejom, 2014). This is also supported by Kumar and Sharma (2005) they argued that clear targets are an essential for an effective internal control process. The general targets being achieved include; executing orderly, moral, economical, efficient and effective operations, satisfying responsibility commitments, consenting to appropriate laws and regulations and defending assets against loss, abuse and harm.

**Concept of Financial Performance**

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period (Kotey, Reid and Ashelby, 2012). Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate.

There are many ways to measure financial performance, but all measures should be taken in aggregate. Line items, such as revenue from operations, operating income, or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Performance is the achievement of the purpose of a particular activity or occupation as measured by the standard. Assessment of bank performance is essential for every stakeholder in competitive financial markets such as bank management, customers, business partners, and government (Sari, 2010). Financial performance is depicted from the profitability of the company where profitability indicates a company's ability to generate profit.

Financial performance is said to directly impact the internal control of an institution. To focus on control environment, internal audit, risk assessment and control activities form the main components of an internal control system. The framework for internal control helps microfinance institutions in managing their business in terms of regulations and policy (Raghunandan & Rama, 1994). Frameworks for internal controls are factored by the processes affected by the board of directors, senior management and all levels of personnel. They are not entirely procedures or policies performed at certain point in time but rather continually operating at all levels within institutions (Hitt, Hoskisson, Johnson, & Moesel, 1996).

**Measures of Financial Performance**

According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Kotey & Reid & Ashelby, 2012) contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

Whittington & Kurt (2001) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial 20 consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments (John & Morris, 2011). This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Dwivedi (2002) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. John and Morris (2011) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

**Survival**: According to Kotler (1992), strong performer firms are those that can stay in business for a good number of years. Dwivedi (2002) also found out that, the ability of a firm to survive in business is an indicator of good financial performance. Richardson, Sonny & Suzan (1994) found out that, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Kenya there are no good data to indicate how many SMEs collapse within 3 years although is a fact they fail. This is therefore an indicator of poor financial performance.

**Liquidity**: Hitt, et al (1996) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organization’s liquidity. Other measures of Liquidity according to ACCA and Panday (1996) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

**Accountability**: According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social or financial accountability.

**Reporting**: Whittington & Pany (2001), talks about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization”

They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others. According Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

Sari (2010) states performance measurement, generally categorized into non-financial and financial measurement. Non-financial performance is a measure of performance by using information non-financial information that is more focused in terms of quality of service to customers. While the measurement of financial performance is the use of financial information in measuring a company's performance. The commonly used financial information is the income statement and the balance sheet.

# Conceptual Framework

Huberman (2004) define a conceptual framework as the current version of the researcher's map of the territory being investigated. Implicit in their view is that conceptual frameworks may evolve as research evolves. Their notion accommodates purpose (boundaries) with flexibility (evolution) and coherence of the research (plan/analysis/conclusion) which all stem from conceptual frameworks. Mugenda (2005) also view a conceptual framework as a hypothesized model identifying the model under study and the relationships between the dependent variable and independent variables.

**Independent Variables** **Dependent Variables**

**Financial Performance**

* Accountability
* Fund Management
* Return on Investment
* Return on Assets
* Resource Utilization
* Profit Maximization

**Internal Control System**

* Risk assessment and control procedures.
* control environment and information and communication.
* Monitoring Activities

**Intervening Variable**

* Organization Policy
* Code of Conduct
* Microfinance Policies

**Figure 2.1: Conceptual Framework**

**Source: John J. Morris (2011), Modified by the Researcher, 2021**

This study based on the mentioned framework especially the implication of the Internal Control System and Financial Performance. Independent variable of the study is Internal Control Systems while the dependent variable is Financial Performance. Internal control systems consist of risk assessment and control procedures; control environment and information and communication and monitoring activities and Financial Performance as dependent variable consist of accountability; fund management; return on investment; return on assets; resource utilization and profit maximization and intervening variables consist of organization policy, microfinance policies and, code of conduct.

# CHAPTER THREE

# METHODOLOGY

# Introduction

This chapter presents the overall research design, location of the study, sample of the study, sample size, sampling techniques used to select respondents, nature of the study, data collection techniques that were used to collect relevant information and data analysis as well as sources of data collection techniques.

# Research Design

According to Churchill (2002), a research design is a master plan specifying methods and procedures for collecting and analyzing the required data. It is a means that is to be followed in completing a research study. The research design helped the researcher to obtain relevant data to fulfill the objectives of the study.

This research study used case study research design because in case study research design, major emphasis is on discovery of ideas and insights, which in this study are to investigate internal control systems and financial performance in microfinance organization: a case study of MUTEC Microfinance. The approach enabled the researcher to collect data by using methods of data collections such as questioners and interview (face to face) that in the end helped in understanding better the problem and enabled to address the research questions that are in the introductory part of this study. This work through selection of a sample from a large population that responded to the questionnaires in order to get the real information from the respondents.

The respondents were selected from those individuals who are members of MUTEC Microfinance and employees of this microfinance. It is assumed that the responses would provide a broader insight of the Internal control systems and financial performance in microfinance organization: a case study of MUTEC Microfinance. The questionnaires were desired in such a way that they were simple and easily understood by the respondents. The questionnaire type of survey was chosen for the fact that it helped the researcher cover a wider and extensive area of the research. It also gave the respondents time to organize themselves on their responses and therefore be able to give comprehensive views.

The research used other means of data collection such as observations, focus group discussions, and questionnaires.

# Study Population

Population refers to an entire group of individuals, events or objectives having common observable characteristics. It is the aggregates of all that conforms to a given specification (Mugenda and Mugenda 2003).

The study population targeted 80 individuals and comprised of manager, Monitoring and evaluation, internal control team, accountants, audit team and staff, I.T personnel that work hand in hand to ensure that MUTEC’S’s objectives are achieved. These were chosen because they are expected to have enough knowledge required in understanding of internal control systems at MUTEC.

# Sample Size and Selection Method

The researcher used judgmental sampling selecting respondents deemed knowledgeable and positioned to provide policy issues on the study.

The study used the Yamane formula (1967:886) sample determination because the target population from which the sample size is to be determined is more that 5% of the study population.

n = N

1 + N (e2)

n= 80

1 + 80 (0.052)

n= 80

1 + 80(0.0025)

n= 66

# Table 3.1: Population and sample size distribution

|  |  |  |  |
| --- | --- | --- | --- |
| **Respondents** | **Population** | **Sample Size** | **Sampling Method** |
| Administrators and Managers | 5 | 5 | Census Sampling |
| Monitoring and Evaluation | 12 | 10 | Purposive Sampling |
| Internal control team | 18 | 16 | Purposive Sampling |
| Supporting Staff | 31 | 26 | Simple random Sampling |
| Information Technology | 8 | 5 | Simple random sampling |
| Audit committee | 6 | 4 | Purposive sampling |
| **Total** | **80** | **66** |  |

Source: Primary Data, 2021

# Sampling Techniques

[Census](https://www.toppr.com/guides/business-economics-cs/descriptive-statistics/census/) method is the method of statistical enumeration where **all members of the population** are studied. A population refers to the set of all observations under concern.

Purposive sampling, also known as judgmental, selective, or subjective sampling, is a form of non-probability sampling in which researchers rely on their own judgment when choosing members of the population to participate in their study.

Simple random sampling is defined as a sampling technique where every item in the population has an even chance and likelihood of being selected in the sample. Here the selection of items entirely depends on luck or probability, and therefore this sampling technique is also sometimes known as a method of chances.

Simple random sampling is a fundamental sampling method and can easily be a component of a more complex sampling method. The main attribute of this sampling method is that every sample has the same probability of being chosen.

# Data Sources

During the study, both primary and secondary data collection methods were applied. There are two main types of data collection methods that was used to collect data during the study namely; primary and secondary data collection methods. Primary data collection methods include; observation, questionnaires and interviews. Secondary data collection method that was used to collect data includes; documentation method.

# Primary Data

A primary data source is an original data source, that is, one in which the data are collected firsthand by the researcher for a specific research purpose or project. The primary data was collected through questionnaire and personal interviews. The questionnaires were distributed to the respondents.

# Secondary Data

Secondary data is the data that has already been collected through primary sources and made readily available for researchers to use for their own research; it is a type of data that has already been collected in the past. Secondary data was obtained from previous studies on internal control systems and financial performance of microfinance the case study of MUTEC Microfinance.

# Data Collection Methods

# Questionnaire Method

A list of questions aim at specific data from a particular group of people, this enabled the researcher to assess thoughts, opinions and feelings of respondents. The researcher used self administered questionnaires that was given to 80 respondents and collected after a week, and only 66 returned questionnaires for analysis. This was designed to gather information and explore the key variables addressed to staff and management. Both open and closed ended questionnaires used to let the respondents give their own opinion about the research problem.

Questionnaire is a research instrument consisting of a series of questions for the purpose of gathering information from the respondents. Questionnaires were used because they enable the researcher to get detailed information on the subject matter.

# Interview Method

An interview is defined as the formal meeting between two people where the interviewer asks questions to the interviewee to obtain information.

An interview Method is essentially a structured [conversation](https://en.wikipedia.org/wiki/Conversation) where one participant asks [questions](https://en.wikipedia.org/wiki/Question), and the other provides answers. Interviews usually take place face-to-face and in person but the parties may instead be separated geographically, as in [videoconferencing](https://en.wikipedia.org/wiki/Videoconferencing) or [telephone interviews](https://en.wikipedia.org/wiki/Telephone_interview). Interviews almost always involve spoken conversation between two or more parties.

Also, interviews were used because they allowed the researcher to have face-to-face discussions with respondents. This method required direct oral examination under which the interviewer has to cross examine persons who have knowledge about the problem or the matter under review and the information obtained to be recorded for the case of the problem under review structured interview was used. (Kothari C.R, 2006). The research involved structured questionnaire where the questions were closed with questions of in dichotomous or multiple choice and was presented with exactly the same wording and in the same order to all respondents reply to the same set of questions (Kothari C.R 2006).

# Documentary Review

Another method that was used to collect data is documentation.

Documentation refers to the variety of written, audio, and visual artifacts that exist within natural, non-laboratory context before a research study is initiated. It can be provided on paper, online, or on digital or analog media, such as audio tape or CDs.

Document review is a way of collecting data by reviewing existing documents. The documents may be internal to a program or organization (such as records of what components of an asthma management program were implemented in schools) or may be external (such as records of emergency room visits by students served by an asthma management program). Documents were hard copy or electronic and may include reports, program logs, performance ratings, funding proposals, meeting minutes, newsletters, and marketing materials.

Documentation method was used because it helped the researcher simplify the researcher’s task by providing information recorded in form of numbers and percentages and presented by using tables, charts and graphs.

# Data Collection Instruments

# Self Administered Questionnaires

A self-administered questionnaire refers to a questionnaire that has been designed specifically to be completed by a respondent without intervention of the researchers (e.g. an interviewer) collecting the data. It is a structured form that consists of a series of closed-ended and open-ended questions. It is called self-administered as the respondents filled it in themselves, without an interviewer.

In order to get good results for the study, the researcher survey the area to get information by using questionnaires that was distributed to sample selected and also used face to face interview to gather the information. The questionnaires were administered in MUTEC Microfinance. This was done to those who are not able to respond on their own due to some reasons such as time constraint factors

# Interview Guide

This was employed especially for the respondents who have no time to write and those who are in a hurry and very busy. This was used to probe and get the required information. The interviewees were made to give the information freely and for the objectives of the study.

# Validity and Reliability of Instruments

Mugenda (2011) defines validity as the accuracy and meaningfulness of inferences which are based on the research results. Validity is the degree to which results obtained from analysis of the data actually represent the phenomenon under study.

# Validity of instruments

# Validity is the degree to which the research instrument is relevant in gathering intended data for the study (Kothari 2008). This is measured by the Content Validity Index (CVI) and after the pretesting of the tools; the CVI was computed using the formula.

C.V.I = Number of items rated relevant X 100%

Total number of items (both irrelevant and relevant)

# Reliability of Instruments

Orodho (2005) states that reliability of a measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. Mugenda (2011) defines reliability as a measure of the degree to which a research instrument yields consistent result or data after repeated trials. According to Sekeran (2003), a research instrument that yields consistent results across the various items when administered time and again at different point in time is seen to be reliable. Cronbach’s Alpha was used to test the reliability and internal consistency of the data obtained for this research. By calculating the Cronbach’s Alpha value, the quality of Likert scale can be discovered and hence reliability is tested (Gliem & Gliem, 2003). According to Tavakol & Dennick (2011), should the value of Cronbach’s Alpha is >0.8, it indicates very high reliability.

# Table 3.2: Reliability of instruments

| No. of items | | Section of the questionnaire | Cronbach’s Alpha |
| --- | --- | --- | --- |
| 1. | | Risk Assessment and Control Procedures | .769 |
| 2. | | Control Environment | .772 |
| 3. | | Monitoring | .788 |
|  | **Average** |  | **.776** |

Source: Primary Data (2021)

The reliability coefficient for each of the sections above exceeds 0.75. As can be seen from table 3.2, the lowest was 0.769 and the highest was 0.888. The average was 0.776 or 77.6%. According to Chadwick, Bahr and Albrecht (1984: 250) as cited in Ehlers (2002:27) are of the opinion that reliability was acceptable at a level of 0.6 or above, with absolute reliability of 1.0 implying that the scales on the questionnaire that were used to measure the three sections were reliable and consistent.

# Data Collection Procedures

This being an academic research, the researcher looked for a supportive letter explaining the objectives of the research signed by the Dean of School of Business Administration (SBA) before distributing the self administered questionnaires, interview guides and focus group discussions to the respondents. Respondents were asked to present their data confidentially and anonymously.

# Data Processing

Data processing was done through different stages. The data collected from different questionnaires and interviews were organized so that order can be created. Editing and cross checking was done so that errors can be detected and corrections made. This helped to find out completeness in the questionnaires. After editing the data, coding was followed. This involves assigning of symbols to answers so that data can be categorized for example by age, level of education and job title. Quantitative data was summarized and presented in frequency tables to generate descriptive statistics. These aimed at enabling quick reading and understanding of the data.

**Data Analysis and Presentation**

Data analysis involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler 2011). Raw data was entered into Statistical Package for Social Sciences (SPSS) program for analysis. Descriptive statistics utilized measures of central tendency (mean), measures of dispersion (standard deviation), frequencies and percentages to analyse quantitative data. On the other hand, the study used multiple regression analysis and correlations to test research questions and draw inferences on the relationship between training and development and employee performance. Data was then presented using frequency tables and figures.

# Ethical Considerations

Effort was made to confine the conduct of the study to the realms of academic research ethics. In general, ethics pertaining to identification, disclosure, understanding, informed consent, voluntary participation, confidentiality, right to privacy and anonymity (secrecy) was taken care of by the study. The rights of individuals and institutions were respected. The researcher first sought consent of all the respondents, who are assured of confidentiality of their responses. Furthermore, confidentiality of data to be provided by individuals or identifiable participants was maintained. Interaction with respondents was done politely and consciously. The participant ensured voluntary participation of the respondents and the right to withdraw partially or completely from the process.

# Study Limitations

Longitudinal effects: The researcher also realized that her budgeted time to investigate the research problem and to measure change or stability within the sample was constrained by the due date of his assignment. The researcher knows that the topic requires an excessive amount of time to complete the literature review, apply the methodology, and gather and interpret the results. To overcome this problem however, the researcher used Saturdays and Sundays also useful in conducting the research.

Inadequate resources: Some of the key respondents provided the researcher with useful information claimed to be too busy and demand the researcher to access them on phones, travel to various destinations to meet and interview them etc. This was too expensive for the researcher as researcher has to spend a lot of resources and money.

Non response: Some respondents most especially the managerial members of the company deliberately rejected and resisted to participate in this study claiming that they accused of releasing confidential information to the public.

# CHAPTER FOUR

# DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

# Introduction

Demographic data is statistical data collected about the characteristic of the population, age, gender and income for example. It is usually used to research a product or service and how well it is selling, who likes it and/or in what it is popular. Data can be collected through methods such as sample surveys and questionnaires. There are few things that we are able to predict when it comes to consumers. But by using demographic data, businesses can understand why customers make choices, is it because of where they live, their age, gender? It may enable them to forecast products in the future and how customers will react to them.

Demographic information allowed the researcher to better understand certain background characteristics of an audience, whether it’s their age, race, ethnicity, income, work situation, marital status, etc. By asking demographic questions in surveys, you can gather demographic information about current and potential customers at scale, and in turn, help you design a [market segmentation](https://www.surveymonkey.com/mp/market-segmentation/) strategy to reach the right clients.

This section brings out the different categories of respondents depending on gender, age, education, period worked and department worked in by the respondents in MUTEC Microfinance.

# Gender of the Respondents

Table and figure 4.1 is about the gender distributions of the respondents in MUTEC Microfinance. It is evident from this gender table that the majority of respondents were males at 41(62.1%) while 25(37.9%) were females. This implies that the male in MUTEC Microfinance participated in this study than female. Therefore, the inclusion of both sexes in collecting data was to avoid gender bias in providing information on Internal Control System and Financial Performance in MUTEC Microfinance – Burundi.

# Table 4.1: Gender of Respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Male | 41 | 62.1 | 62.1 |
|  | Female | 25 | 37.9 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

# Figure 4.1: Gender of Respondents

Source: Primary Data, (2021)

# Age of the Respondents

Basing on results in table and figure 4.2, 12(18.2%) of the respondents were between 20-29 years of age, 27(40.9%) were between 30-39 years of age, 17(25.8%) were between 40-49 years, 10(15.2%) were between 50 years of age and above. This implies that most of the respondents were mature and therefore make sound decisions and accurate information on how the internal control systems improves financial performance at MUTEC Microfinance.

# Table 4.2: Age group of respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | 20 - 29 Years | 12 | 18.2 | 18.2 |
|  | 30 - 39 Years | 27 | 40.9 | 59.1 |
|  | 40 - 49 Years | 17 | 25.8 | 84.8 |
|  | 50 Years + | 10 | 15.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

# Figure 4.2: Age group of Respondents

Source: Primary Data, (2021)

# Level of Education

According to table and figure 4.3 reveals that majority of the respondents had a bachelor’s degree that’s to say, 21(31.8%), followed by 23(34.8%) who have diplomas in different courses, 21(31.8%) had certificates and 5(7.6%) had Masters and no one had PhD. This implies that the respondents were able to read and understand the questions in the questionnaire and give appropriate answers on how internal control system improves financial performance of MUTEC Microfinance.

# Table 4.3: Level of Education

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Certificate | 17 | 25.8 | 25.8 |
|  | Diploma | 23 | 34.8 | 60.6 |
|  | Degree | 21 | 31.8 | 92.4 |
|  | Masters | 5 | 7.6 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

# Figure 4.3: Level of Education

Source: Primary Data, (2021)

# Marital Statuses

Table and figure 4.4 reveals that 16(24.2%) of the respondents were married, 21(31.8%) were single, 18(27.3%) were cohabiting, 5(7.5%) divorced and 6(9.1%) were widowers. This implies that majority of the respondents who were involved in this study were single than married ones. The study revealed that most staffs in MUTEC Microfinance have responsibilities and reasons for working, but their responses did not necessarily account on their marital status.

# Table 4.4: Marital statuses of the Respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Married | 16 | 24.2 | 24.2 |
|  | Single | 21 | 31.8 | 56.0 |
|  | Cohabiting | 18 | 27.3 | 83.3 |
|  | Divorced | 5 | 7.5 | 90.9 |
|  | Widower | 6 | 9.1 |  |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

# Figure 4.4: Marital statuses of the Respondents

Source: Primary Data, (2021)

# Category of Respondents

Results from table and figure 4.5 indicates that 8(12.1%) were administrators, 8(12.1%) were managers, 13(19.7%) were monitoring and evaluation, 7(10.6%) were information technology staff, 30(45.5%) were supporting staff. This implies that the majority of respondents were capable and had capacity to provide precise and concise information on internal control systems and financial performance of MUTEC Microfinance.

# Table 4.5: Category of respondent

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Administration | 8 | 12.1 | 12.1 |
|  | Management | 8 | 12.1 | 24.2 |
|  | Monitoring and Evaluation | 13 | 19.7 | 43.9 |
|  | Information Technology | 7 | 10.6 | 54.5 |
|  | Supporting Staff | 30 | 45.5 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

# Figure 4.5: Category of respondent

Source: Primary Data, (2021)

# Number of years working with MUTEC Microfinance

A question was asked to find out the number of years respondents have spent while working with MUTEC Microfinance. Their responses are as shown in table and figure 4.6; 23(34.8%) of the respondents have spent less than 1-2 years, 19(28.8%) have spent 3-4 years, 10(15.2%) have spent 5-7 years, 8(9.1%) have spent 8-10 years and 6(9.1%) have spent 11 years above in MUTEC Microfinance. This reveals that most of the respondents had experience in credit activities therefore their information was reliable to the study.

# Table 4.6: Number of years working with MUTEC Microfinance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | 1 - 2 years | 23 | 34.8 | 34.8 |
|  | 3 - 4 years | 19 | 28.8 | 63.6 |
|  | 5 – 7 Years | 10 | 15.2 | 78.8 |
|  | 8 – 10 Years | 8 | 12.1 | 90.9 |
|  | 11 Years and above | 6 | 9.1 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

# Figure 4.6: Number of years working with MUTEC Microfinance

Source: Primary Data, (2021)

# CHAPTER FIVE

# THE EFFECT OF RISK ASSESSMENT AND CONTROL PROCEDURES ON THE FINANCIAL PERFORMANCE OF MUTEC MICROFINANCE.

# Introduction

This chapter presents findings on the first objective of the study which sought to examine the effect of risk assessment and control procedures on the financial performance of MUTEC Microfinance. Tables with frequencies and percentages were used to analyse data collected from the field.

# MUTEC has defined appropriate objectives of risk assessment

Findings respondents were asked whether MUTEC Microfinance has defined appropriate objectives of risk assessment, their responses were as indicated in table 5.1.

# Table 5.1: MUTEC has defined appropriate objectives of risk assessment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 18.2 | 18.2 |
|  | Disagree | 15 | 22.7 | 40.9 |
|  | Agree | 18 | 27.3 | 68.2 |
|  | Strongly Agree | 21 | 31.8 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table 5.1, the majority 39(59.1%) of the respondents were in agreement that MUTEC Microfinance has defined appropriate objectives of risk assessment. This means that the organization has effective risk management system and its main objective is to minimize financial risks to occur. However, 27(40.9%) of the respondents were in disagreement. This means that even though there is a risk assessment system in place, it was discovered that there is still occurrence of some credit, operational and liquidity risks.

# MUTEC Microfinance identifies risks

Risk identification is the process of taking stock of an organization’s risks and vulnerabilities and raising awareness of these risks in the organization. Findings on whether MUTEC Microfinance identifies risks that affect achievement of the objectives and their responses were as indicated in table 5.2.

# Table 5.2: MUTEC Microfinance identifies risks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.7 | 19.7 |
|  | Disagree | 11 | 16.7 | 36.4 |
|  | Neutral | 7 | 10.6 | 47.0 |
|  | Agree | 17 | 25.8 | 72.7 |
|  | Strongly Agree | 18 | 27.3 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

According to findings in table 5.2, the majority 35(53.1%) of the respondents agreed that MUTEC Microfinance identifies risks that affect achievement of the objectives. This is an implication that MUTEC identify the existence of current and potential risks, this has enabled MUTEC to develop plans to minimize harmful events before they arise. This step has helped the company to identify all possible risks that could harm its operations, such as lawsuits, theft, technology breaches, and downturns. However, 7(10.6%) were not neutral and 24(36.4%) of the respondents disagreed. This means that some risks occur without identified, thus ineffective financial performance.

# MUTEC Microfinance has criteria for ascertainment of fraud-related risks

Every business is vulnerable to fraud, only the specific risks involved will vary across organizations. Findings on whether MUTEC Microfinance has criteria for ascertainment of which fraud-related risks to the organization are most critical. Their responses were as summarised in table 5.3.

# Table 5.3: MUTEC has criteria for ascertainment of fraud-related risks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.7 | 16.7 |
|  | Disagree | 10 | 15.2 | 31.8 |
|  | Neutral | 8 | 12.1 | 43.9 |
|  | Agree | 28 | 42.4 | 86.4 |
|  | Strongly Agree | 9 | 13.6 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Result of findings in table 5.3 indicate that the majority 37(56%) of the respondents were in agreement that MUTEC Microfinance has criteria for ascertainment of which fraud-related risks to the organization are most critical. According to Mr. Ainemana-Manager at MUTEC, revealed that fraud prevention is part of a general enterprise risk management plan and it is an important component of MUTEC’s management process. Though, 8(12.1%) were not sure and 21(31.9%) of the respondents disagreed. Therefore, once a fraud prevention program is in place, it is critical to communicate it to everyone in the microfinance, from top to bottom. This involves training or testing, but it helps to inform staff about the organization’s definition of fraud and expectations about how employees should treat it.

# MUTEC has put in place mechanisms for mitigation of critical risks

Awareness of the existence of risks in the microcredit sector is a first step towards controlling and reducing these risks. Respondents were asked whether MUTEC Microfinance has put in place mechanisms for mitigation of critical risks that may result from fraud. Their responses were as shown in table 5.4.

# Table 5.4: MUTEC has put in place mechanisms for mitigation of risks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 13.6 | 13.6 |
|  | Disagree | 11 | 16.7 | 30.3 |
|  | Neutral | 7 | 10.6 | 40.9 |
|  | Agree | 19 | 28.7 | 69.7 |
|  | Strongly Agree | 20 | 30.3 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Table 5.4 indicate that the 39(59%) of the respondents agreed that MUTEC Microfinance has put in place mechanisms for mitigation of critical risks that may result from fraud. This means that risk mitigation progress monitoring includes tracking identified risks, identifying new risks, and evaluating risk process effectiveness throughout the Microfinance operations, thus improved financial performance. Though 7(10.6%) were not sure and 20(30.3%) of the respondents disagreed. This indicated that some risks are not proper mitigated at MUTEC Microfinance. Therefore, risk mitigation system should reduce the likelihood of that risk event will occur and also reduce the effect of a risk event occurred.

# MUTEC Microfinance has clear separation of roles

In microfinance, it is important to separate employee duties as it helps safeguard assets among many other beneficial components. When respondents were asked whether MUTEC Microfinance has clear separation of roles and every employee’s work check on the others, their responses were as shown in table 5.5.

# Table 5.5: MUTEC Microfinance has clear separation of roles

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.7 | 19.7 |
|  | Disagree | 13 | 19.7 | 39.4 |
|  | Neutral | 8 | 12.1 | 51.5 |
|  | Agree | 21 | 31.8 | 83.3 |
|  | Strongly Agree | 11 | 16.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table 5.5 present that the majority 32(48.5%) of the respondents agreed that MUTEC Microfinance has clear separation of roles and every employee’s work check on the others. This means that separation of duties help administrators and managers place internal controls over the assets of MUTEC Microfinance. Separation of duties also help in practicing bookkeeping more efficiently and effectively as it prohibits the allocation of responsibilities to one person, thus improved performance. Though, 8(12.1%) were not sure and 26(39.4%) of the respondents disagreed. Therefore, risk management goal of SOD controls should prevent unilateral actions from occurring in key processes where irreversible affects are beyond MUTEC’s tolerance for error or fraud.

# Corrective action is taken to address weaknesses

Respondents were asked whether corrective action is taken to address weaknesses and employees are trained to implement the accounting and financial management system, their responses were as revealed in table 5.6.

# Table 5.6: Corrective action is taken to address weaknesses

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 13.6 | 13.6 |
|  | Disagree | 14 | 21.2 | 34.8 |
|  | Neutral | 6 | 9.1 | 43.9 |
|  | Agree | 23 | 34.8 | 78.8 |
|  | Strongly Agree | 14 | 21.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Result of findings in table 37(56%) of the respondents were in agreement that corrective action is taken to address weaknesses and employees are trained to implement the accounting and financial management system. This implies that MUTEC Microfinance identify the weaknesses, implement improvement strategies, ask for feedback, make adjustments and evaluate progress. However, 6(9.1%) were not sure and 23(34.8%) of the respondents were in disagreement. In an interview held with some managers at MUTEC Microfinance, they revealed that “developing processes and organizational procedures that identify weak areas promote growth and engagement, and the first step is to identify the areas already familiar with.

# Chart of Accounts

A chart of accounts (COA) is an index of all the financial accounts in the general ledger of a company. Findings on whether MUTEC Microfinance has a well-developed Chart of Accounts and it are impossible for one staff to have access to all valuable information without the consent of senior staff. Their responses were as summarised in table 5.7.

# Table 5.7: Chart of Accounts

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 18.2 | 18.2 |
|  | Disagree | 8 | 12.1 | 30.3 |
|  | Neutral | 6 | 9.1 | 39.4 |
|  | Agree | 20 | 30.3 | 69.7 |
|  | Strongly Agree | 20 | 30.3 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table reveal that the majority 40(60.6%) of the respondents were in agreement that MUTEC Microfinance has a well-developed Chart of Accounts and it are impossible for one staff to have access to all valuable information without the consent of senior staff. This means that MUTEC Microfinance has a tool that provides a digestible breakdown of all the financial transactions that microfinance conducted during a specific accounting period, broken down into subcategories. However, 6(9.1%) were not sure and 20(30.3%) of the respondents were in disagreement. Therefore, Chart of Accounts should be used to organize finances and give interested parties, such as investors and shareholders, a clearer insight into MUTEC’s financial health.

# Controls are in place to exclude incurring expenditure

Findings on whether controls are in place to exclude incurring expenditure in excess allocated funds and their responses were as reflected in table 5.8.

# Table 5.8: Controls are in place to exclude incurring expenditure

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 15.2 | 15.2 |
|  | Disagree | 12 | 18.2 | 33.4 |
|  | Neutral | 8 | 12.1 | 45.5 |
|  | Agree | 20 | 30.3 | 75.8 |
|  | Strongly Agree | 16 | 24.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

According to findings in table 5.8, the majority 54.5%) of the respondents were in agreement that controls are in place to exclude incurring expenditure in excess allocated funds. This implies that MUTEC Microfinance has several systems, policies, procedures and processes implemented by the board and senior management to safeguard assets, limit or control risks and achieve its objectives, thus controlling unnecessary expenditures. Though, 8(12.1%) were not sure and 22(33.4%) of the respondents disagreed. Therefore, Effective internal controls should prevent or detect mistakes, potential fraud or noncompliance with microfinance policies.

# Departments have budget reviews

On the question whether departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given, their respondents were as shown in table 5.9.

# Table 5.9: Departments have budget reviews

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 7 | 10.6 | 10.6 |
|  | Disagree | 13 | 19.7 | 30.3 |
|  | Neutral | 6 | 9.1 | 39.4 |
|  | Agree | 26 | 39.4 | 78.8 |
|  | Strongly Agree | 14 | 21.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Result of findings in table 5.9 presents that the majority 40(60.6%) of the respondents generally agreed that departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given. This means that these reviews allow MUTEC Microfinance for quick identification of short falls and cost overruns. It also gives management the tools needed to react to variances in expenses, revenues, production, among others. However, 6(9.1%) were not sure and 20(30.3%) of the respondents disagreed. This indicates that not all departments have budget reviews.

# Security system identifies and safeguards organizational Assets.

Respondents were asked whether MUTEC Microfinance’s security system identifies and safeguards organizational assets and their responses were as reflected in table 5.10.

# Table 5.10: Security system identifies and safeguards Assets.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Agree | 13 | 19.7 | 19.7 |
|  | Disagree | 7 | 10.6 | 30.3 |
|  | Neutral | 6 | 9.1 | 39.4 |
|  | Agree | 21 | 31.8 | 71.2 |
|  | Strongly Agree | 19 | 28.8 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Research findings in table 5.10 indicate that 40(60.6%) of the respondents were in agreement that MUTEC Microfinance’s security system identifies and safeguards organizational assets. This implies that the organization has different systems such as cameras, security guards, among others, which has helped them to safeguard their assets. However, 6(9.1%) were not sure and 20(30.3%) of the respondents disagreed. This indicates that some assets are misused or stolen due to poor security services in some places of MUTEC Microfinance. In an interview with head of security at MUTEC, he said that “*effective system security depends on creating a workplace environment and organizational structure where management understands and fully supports security efforts, and users are encouraged to exercise caution*”.

# Testing Hypothesis 1

The hypothesis one tested the objective number one to ensure the effect of risk assessment and procedures on the financial performance. This hypothesis has been tested using various techniques and the results are as shown below.

# Correlations between Risk Assessment and Control Procedures and Financial Performance

Results of the correlation analysis revealed that there is a significant and positive relationship between risk assessment and control procedures and financial performance (r=0.869, P<0.005). The result indicates that risk assessment and control procedures improve financial performance of MUTEC Microfinance.

# Table 5.11: Correlations between Risk Assessment and Control Procedures and Financial Performance.

|  | | Risk Assessment and Control Procedures | Financial Performance | |
| --- | --- | --- | --- | --- |
| Risk Assessment and Control Procedures | Pearson Correlation | 1 | .869\*\* | |
| Sig. (2-tailed) |  | .000 | |
| N | 66 | 66 | |
| Financial Performance | Pearson Correlation | .869\*\* | 1 | |
| Sig. (2-tailed) | .000 |  | |
| N | 66 | 66 | |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

# Model Summary

The above alternative hypothesis was tested and as reflected in the model summary table 5.12. *R* square of 0.840 of the observed variability indicates that MUTEC Microfinance to ensure effective financial performance. The observed value of 0.755 or 75.5% is quite big; indicating that the linear regression model does fit. The Adjusted R2 (0.753) is proportion of the variability in the dependent variable explained by the linear regression. The result shows that risk assessment and control procedures improve financial performance.

# Table 5.12: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .869(a) | .755 | .753 | .33053 |

a. Predictors: (Constant), risk assessment and control procedures

# Coefficientsa

Financial Performance was used as the dependent variable and risk assessment and control procedures as independent variables. It was established that risk assessment and control procedures (ß=0.869, t=31.629, P<0.005) this implies that MUTEC has put in place mechanisms for mitigation of critical risks that may result from fraud.

| Table 5.13: Coefficientsa | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .370 | .100 |  | 3.718 | .000 |
| Risk Assessment and control procedures | .823 | .029 | .869 | 31.629 | .000 |
| a. Dependent Variable: Financial Performance | | | | | | |

# ANOVA

The analysis-of-variance (ANOVA) table 5.14 was used to test the equivalent positive hypothesis, the F= 1000.368, p<0.005 the significant hypotheses that there is linear relationship between risk assessment and control procedures on the financial performance in MUTEC Microfinance.

# Table 5.14: ANOVAb

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Regression | 109.289 | 1 | 109.289 | 1000.368 | .000a |
| Residual | 6.992 | 64 | .109 |  |  |
| Total | 116.281 | 65 |  |  |  |
| a. Predictors: (Constant), Risk Assessment and Control Procedures | | | | | | |
| b. Dependent Variable: Financial Performance | | | | | | |

# CHAPTER SIX

# CONTROL ENVIRONMENT ON THE FINANCIAL PERFORMANCE OF MUTEC MICROFINANCE

# Introduction

Chapter six present findings on objective two which sought to examine the effect of control environment on the financial performance of MUTEC Microfinance. Descriptive statistics and inferential statistics such as tables with frequencies and percentages, correlations, regressions, model summary, anova and coefficients were used to analyse data.

# MUTEC Microfinance has set of standards, processes, and structures

On the question whether MUTEC Microfinance has set of standards, processes, and structures that provide the basis for carrying out internal control across the organization, their responses were as depicted in the table 6.1.

# Table 6.1: MUTEC has set of standards, processes, and structures

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.7 | 16.7 |
|  | Disagree | 12 | 18.2 | 34.9 |
|  | Agree | 34 | 51.5 | 86.4 |
|  | Strongly Agree | 9 | 13.6 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Table 6.1 presents that 43(65.1%) of the respondents agreed that MUTEC has set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. This means that BoDs establish the tone at the top regarding the importance of internal control including expected standards of conduct. Though, 23(34.9%) of the respondents disagreed. This means that even though these standards are in place, some employees do not comply with them, thus ineffective financial performance.

# MUTEC demonstrates a commitment to integrity and ethical values.

Respondents were asked whether MUTEC Microfinance demonstrates a commitment to integrity and ethical values. Their responses were as revealed in the table 6.2.

# Table 6.2: Demonstrates a commitment to integrity and ethical values.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.7 | 19.7 |
|  | Disagree | 9 | 13.6 | 33.3 |
|  | Neutral | 5 | 7.6 | 40.9 |
|  | Agree | 28 | 42.4 | 83.3 |
|  | Strongly Agree | 11 | 16.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

In table 6.2, the majority 39(59.1%) of the respondents agreed that MUTEC Microfinance demonstrates a commitment to integrity and ethical values. This means that this institution has high values and promotes honesty and integrity among their employees on a day-to-day basis. However, 5(7.6%) were not sure and 22(33.3%) of the respondents disagreed. Consequently, if those values do exist and are communicated effectively to employees and enforced, this have the effect of increasing confidence in the design, administration and monitoring of controls, leading to a reduced risk of material misstatement in a MUTEC’s financial statements.

# Management establishes responsibilities in the pursuit of objectives.

Respondents were asked whether management of MUTEC Microfinance establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. Their responses were as indicated in the table 6.3.

# Table 6.3: Management establishes responsibilities in the pursuit of objectives.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 22.7 | 22.7 |
|  | Disagree | 15 | 22.7 | 45.5 |
|  | Neutral | 8 | 12.1 | 57.6 |
|  | Agree | 28 | 42.4 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table 6.3 reveals that the majority 36(54.5%) of the respondents were in agreement that management of MUTEC Microfinance establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. This is a clear implication that the microfinance identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed, thus improved financial performance. However, 30(45.5%) of the respondents disagreed. For that reason, the board of directors at MUTEC Microfinance should respect the principles underlying the control environment component of internal control to ensure effective financial performance.

# The board of directors demonstrates independence from management

Findings on whether the board of directors (BODs) demonstrates independence from management and exer­cises oversight of the development and performance of internal control and their responses were as shown in the table 6.4.

# Table 6.4: The BODs demonstrates independence from management

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 12.1 | 12.1 |
|  | Disagree | 12 | 18.2 | 30.3 |
|  | Neutral | 6 | 9.1 | 39.4 |
|  | Agree | 24 | 36.4 | 75.8 |
|  | Strongly Agree | 16 | 24.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Table 6.4 indicates that the majority 40(60.6%) of the respondents generally agreed that the board of directors (BODs) demonstrates independence from management and exer­cises oversight of the development and performance of internal control. This is a clear indication that the board of directors maintains independence both in fact and in appearance from management, but it has the necessary expertise to fulfill individual roles. Though, 6(9.1%) were not sure and 20(30.3%) of the respondents were in disagreement. Therefore, the board of directors of MUTEC Microfinance should also oversee the design and implementation of internal controls, which is carried out by management.

# Commitment to attract, develops, and retains com­petent individuals.

Findings on whether the organization demonstrates a commitment to attract, develop, and retain com­petent individuals in alignment with objectives. Their responses were as reflected in the table 6.5.

# Table 6.5: Attract, develops, and retains com­petent individuals.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 24.2 | 24.2 |
|  | Disagree | 7 | 10.6 | 34.8 |
|  | Agree | 24 | 36.4 | 71.2 |
|  | Strongly Agree | 19 | 28.8 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Research findings in table 6.5 indicate that the majority 43(65.2%) of the respondents generally agreed that MUTEC Microfinance demonstrates a commitment to attract, develop, and retain com­petent individuals in alignment with objectives. This means that the entity have sound personnel policies for hiring, orienting, training, evaluating, counseling, promoting, compensating, planning for succession, and taking remedial action. Though 23(34.8%) of the respondents were in disagreement. For that reason, monitoring staff competence is very important in maintaining a system of internal control, and evaluation should not be limited to the hiring process. Competence is something that should be nurtured and reinforced through an ongoing plan to develop and train employees at MUTEC Microfinance.

# MUTEC Microfinance holds individuals accountable for their internal control responsibili­ties in the pursuit of objectives.

When respondents were asked whether MUTEC Microfinance holds individuals accountable for their internal control responsibili­ties in the pursuit of objectives and their responses were as depicted in the table 6.6.

# Table 6.6: MUTEC Microfinance holds individuals accountable for their internal control responsibili­ties in the pursuit of objectives.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 15.2 | 15.2 |
|  | Disagree | 12 | 18.2 | 33.4 |
|  | Neutral | 6 | 9.1 | 42.5 |
|  | Agree | 26 | 39.4 | 81.8 |
|  | Strongly Agree | 12 | 18.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table 6.6 reveals that the majority 38(57.6%) of the respondents agreed that MUTEC Microfinance holds individuals accountable for their internal control responsibili­ties in the pursuit of objectives. This is an implication that accountability is reinforced by establishing clear expectations, performance measures, and incentives that consider the pressures of achieving the related goals. It is also reinforced by taking corrective action when appropriate. Though, 6(9.1%) were not sure and 22(33.4%) of the respondents disagreed. Hence, management and the board of directors should be responsible for establishing mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the microfinance and for implementing corrective action as necessary.

# MUTEC Identify individuals who are responsible for coordinating the various activities.

Respondents were asked whether MUTEC Microfinance has identified individuals who are responsible for coordinating the various activities within the entity. Their responses were as shown in the table 6.7.

# Table 6.7: MUTEC Microfinance Identify individuals who are responsible for coordinating the various activities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 27.3 | 27.3 |
|  | Disagree | 12 | 18.2 | 45.5 |
|  | Neutral | 5 | 7.6 | 53.1 |
|  | Agree | 10 | 15.2 | 68.3 |
|  | Strongly Agree | 21 | 31.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Table 6.7 presents that 31(46.9%) of the respondents were in agreement that MUTEC Microfinance has identified individuals who are responsible for coordinating the various activities within the entity. The intent behind doing so is to eliminate instances in which someone could engage in fraudulent activities by having an excessive amount of control over different services. However, 5(7.6%) were not sure and 30(45.5%) of the respondents disagreed. Therefore, identifying individuals to coordinate various activities should be done in the way of shifting tasks among too many people to makes the process flow more efficient.

# All employees understand the concept and importance of internal controls

When respondents were asked whether all employees understand the concept and importance of internal controls including the division of responsibility, their responses were as presented in the table 6.8.

# Table 6.8: Employees understand the concept of internal controls

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 22.7 | 22.7 |
|  | Disagree | 10 | 15.2 | 37.9 |
|  | Neutral | 8 | 12.1 | 50.0 |
|  | Agree | 24 | 36.4 | 86.4 |
|  | Strongly Agree | 9 | 13.6 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Result of findings in table 6.8 presents that the majority 33(50%) of the respondents were in agreement that all employees understand the concept and importance of internal controls including the division of responsibility, their responses. This means that all employees are aware that effective internal control reduce the risk of asset loss, and help ensure that plan information is complete and accurate, financial statements are reliable, and the operations are conducted in accordance with the provisions of applicable laws and regulations. Though, 8(12.1%) were neutral and 25(37.9%) of the respondents disagreed. This indicates that some employees do not understand the significance of internal control system to the microfinance.

# Communication helps to evaluate how well guidelines and policies of the organization are working and being implemented.

When respondents were asked whether communication helps to evaluate how well guidelines and policies of the organization are working and being implemented and their responses were as reflected in table 6.9.

# Table 6.9: Communication helps to evaluate how well guidelines and policies of the organization are working and being implemented.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 6 | 9.1 | 9.1 |
|  | Disagree | 13 | 19.7 | 28.8 |
|  | Neutral | 7 | 10.6 | 39.4 |
|  | Agree | 23 | 34.8 | 74.2 |
|  | Strongly Agree | 17 | 25.8 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

According to findings in table 6.9, the majority 40(60.6%) of the respondents were in agreement that communication helps to evaluate how well guidelines and policies of the organization are working and being implemented. This indicates that communication is a source of information to the MUTEC members for decision-making process as it helps identifying and assessing alternative course of actions. They also states that effective communication  promotes  motivation by informing and clarifying the employees about the task to be done, the manner they are performing the task, and how to improve their performance if it is not up to the mark. However, 7(10.6%) were not sure and 19(28.8%) of the respondents were in disagreement. this indicates that some supervisors and managers do not know how to communicate to their subordinates.

# The reporting system spells out all the responsibilities of each section / unit in MUTEC Microfinance

On the question whether the reporting system on organizational structures spells out all the responsibilities of each section/unit in MUTEC Microfinance, their responses were as reflected in 6.10.

# Table 6.10: The reporting system spells out all the responsibilities of each section/unit in MUTEC Microfinance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.7 | 19.7 |
|  | Disagree | 17 | 25.8 | 45.5 |
|  | Agree | 23 | 34.8 | 80.3 |
|  | Strongly Agree | 13 | 19.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Study findings in table 6.10 reveals that the majority 36(54.5%) of the respondents agreed that the reporting system on organizational structures spells out all the responsibilities of each section/unit in MUTEC Microfinance. Though, 30(45.5%) of the respondents disagreed. For that reason, an effective structure facilitates management and clarifies relationships, roles and responsibilities, levels of authority, and supervisory or reporting lines. By reviewing an organization’s structure, a manager should also be able to determine which human, financial, and technical resources are available, how they should be allocated, and which resources are lacking at MUTEC Microfinance.

# Testing Hypothesis 2

Thishypothesis was tested in a relation to the objective two of the study to ensure whether the effect of control environment and information and communication on the financial performance. This hypothesis has been tested and the results are shown below;

# Correlations

Results of the correlation analysis revealed that there is a significant and positive relationship between the control environment and information & communication (r=0.872, P<0.005). This analysis is summarized in the table 6.11. This implies that MUTEC Microfinance has set of standards and structures that provide the basis for carrying out internal control.

# Table 6.11: Correlations

|  | | Control Environment and Information & Communication | Financial Performance |
| --- | --- | --- | --- |
| Control Environment and Information & Communication | Pearson Correlation | 1 | .872\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 66 | 66 |
| Financial Performance | Pearson Correlation | .872\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 66 | 66 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

**Model Summary**

The above hypothesis was tested and as per the model summary reflected in the table 6.12 shows *R* Square of 0.760 or 76% of the observed variability indicates that control environment and information and communication on the financial performance of MUTEC Microfinance. The observed value of 0.872 is quite big and significant. The Adjusted R2 (0.759) is proportion of the variability in the dependent variable explained by the linear regression. The result shows that control environment and information and communication improve financial performance of MUTEC Microfinance.

# Table 6.12: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .872(a) | .760 | .759 | .31897 |

a. Predictors: (Constant), Control Environment and Information & Communication

# 

# Coefficients

Financial Performance was used as the dependent variable and control environment and information and communication as independent variable. It was established that control environment and information and communication (ß=0.872, t=32.847, P<0.005) these result indicates that MUTEC Microfinance demonstrates a commitment to integrity and ethical values.

# Table 6.13: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| --- | --- | --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | .390 | .095 |  | 4089 | .000 |
| Control Environment and Information & Communication | .870 | .030 | .872 | 32.847 | .000 |
| a. Dependent Variable: Financial Performance | | | | | | |

# Anova (analysis-of-variance)

The analysis-of-variance (ANOVA) table 6.14 was used to test the equivalent positive hypothesis, the F= 1078.905, p<0.005 there is linear relationship between the variables i.e. control environment and information and communication and financial performance.

| Table 6.14: ANOVAb | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 109.770 | 1 | 109.770 | 1078.905 | .000a |
| Residual | 6.511 | 64 | .102 |  |  |
| Total | 116.281 | 65 |  |  |  |
| a. Predictors: (Constant), control environment and information and communication | | | | | | |
| b. Dependent Variable: Financial Performance | | | | | | |

# CHAPTER SEVEN

# THE EFFECT OF MONITORING ON THE FINANCIAL PERFORMANCE OF MUTEC MICROFINANCE

# Introduction

This chapter presents analysis and interpretation of findings on the effect of monitoring on the financial performance of MUTEC Microfinance. Descriptive statistics and inferential statistics such as correlations, regressions, model summary, ANOVA and coefficients were used to analyse data.

# Independent process checks and evaluations of controls activities

On the question whether there are independent process checks and evaluations of controls activities on ongoing basis, their responses were as reflected in the table 7.1:

# Table 7.1: Independent process checks and evaluations of controls activities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 18.2 | 18.2 |
|  | Disagree | 6 | 9.1 | 27.3 |
|  | Neutral | 9 | 13.6 | 40.9 |
|  | Agree | 23 | 34.8 | 75.8 |
|  | Strongly Agree | 16 | 24.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

From table 7.1, the findings indicates that 39(59%) of the respondents agreed that there are independent process checks and evaluations of controls activities on ongoing basis. This means that there is proper segregation of duties, authorization and approval, reconciliation and review and physical security. However, 6(9.1%) were not sure and 18(27.3%) of the respondents disagreed. Therefore, MUTEC should always comply with procedures and techniques to reduce all sorts of risks.

# Internal reviews of implementation of internal controls in units

Respondents were asked whether internal reviews of implementation of internal controls in units are conducted periodically and monitoring has helped in assessing the quality of performance of the organization over time and their responses were as indicated in the table 7.2.

# Table 7.2: Internal reviews the implementation of internal controls in units

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 24.2 | 24.2 |
|  | Disagree | 10 | 15.2 | 39.4 |
|  | Neutral | 5 | 7.6 | 47.0 |
|  | Agree | 14 | 21.2 | 68.2 |
|  | Strongly Agree | 21 | 31.8 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

In table 7.2, the majority 35(53%) of the respondents were in agreement that internal reviews the implementation of internal controls in units are conducted periodically and monitoring has helped in assessing the quality of performance of MUTEC Microfinance. This is an implication that the microfinance periodically assesses risks and the level of internal control required to protect its assets and records related to those risks. Though, 5(7.6%) were not sure and 26(39.4%) of the respondents disagreed. consequently, the system of internal control should be periodically reviewed by management. By performing a periodic assessment, management of MUTEC Microfinance should assure that internal control activities have not become obsolete or lost due to turnover or other factors.

# Review of audit reports

The auditor's report is a document containing the auditor's opinion on whether a company's financial statements comply with GAAP and are free from material misstatement. Findings on whether management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports, their responses were as shown in the table 7.3.

# Table 7.3: Review of audit reports

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.7 | 16.7 |
|  | Disagree | 9 | 13.6 | 30.3 |
|  | Neutral | 6 | 9.1 | 39.4 |
|  | Agree | 26 | 39.4 | 78.8 |
|  | Strongly Agree | 14 | 21.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

According to findings in table 7.3, the majority 40(60.6%) of the respondents were in agreement that management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports. Though, 6(9.1%) were not sure with the statement and 20(30.3%) of the respondent were in disagreement. Therefore, a clean audit report means a company should follow accounting standards while an unqualified report means there might be errors.

# Great Transparency and Accountability

When respondents were asked whether there is great transparency and accountability in all operations of MUTEC Microfinance and their responses were as shown in the table 7.4.

# Table 7.4: Great Transparency and Accountability

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.7 | 19.7 |
|  | Disagree | 11 | 16.7 | 36.4 |
|  | Neutral | 5 | 7.6 | 43.9 |
|  | Agree | 30 | 45.5 | 89.4 |
|  | Strongly Agree | 7 | 10.6 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table 7.4 present that 37(56.1%) of the respondents were in agreement that there is great transparency and accountability in all operations of MUTEC Microfinance. This indicates that monitoring activity is helping the microfinance to track, analyse and report on relevant information throughout its life cycle. Monitoring also help the administrators and stakeholders acquire the information and understanding they need to collaborate, communicate, provide inputs and make informed decisions about strategy improvements to ensure effective financial performance. However, 5(7.6%) were not sure and 24(36.4%) of the respondents were in disagreement. This means that in some occasions the system lacks transparency and accountability.

# Effective resource allocation at MUTEC Microfinance

Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals. Respondents were asked whether there is effective resource allocation at MUTEC Microfinance and their responses were as indicated in the table 7.5.

# Table 7.5: Effective resource allocation at MUTEC Microfinance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 24.2 | 24.2 |
|  | Disagree | 6 | 9.1 | 33.3 |
|  | Agree | 29 | 43.9 | 77.3 |
|  | Strongly Agree | 15 | 22.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Research findings in table 7.5 indicate that 44(66.6%) of the respondents generally agreed that there is effective resource allocation at MUTEC Microfinance. This means that there is proper resource allocation of assets includes managing tangible assets such as hardware to make the best use of softer assets such as human capital. However, 22(33.3%) of the respondents disagreed. This means that some assets are not properly allocated. Consequently, resource allocation should involve balancing competing needs and priorities and determining the most effective course of action in order to maximize the effective use of limited resources and gain the best return on investment.

# MUTEC Microfinance gather, disseminate and utilise information and data

When respondents were asked whether MUTEC Microfinance gather, disseminate and utilise information and data to improve their internal operations. Their responses were as shown in the table 7.6.

# Table 7.6: MUTEC gather, disseminate and utilise information and data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 15.2 | 15.2 |
|  | Disagree | 9 | 13.6 | 28.8 |
|  | Neutral | 7 | 10.6 | 39.4 |
|  | Agree | 29 | 43.9 | 83.3 |
|  | Strongly Agree | 11 | 16.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings in table 7.6 reveals that the majority 40(60.6%) of the respondents were in agreement that MUTEC Microfinance gather, disseminate and utilise information and data to improve their internal operations and add value to the organisation. Mrs. Jean Mwicomwiza – Credit Manager at MUTEC Microfinance, added that the microfinance focus on their objectives such as enhancing performance, encouraging innovation, sharing and integrating lessons learned for continuous improvement. However, 7(10.6%) were not sure and 19(28.8%) of the respondents were in disagreement. Therefore, Monitoring and Evaluation unit of MUTEC should also streamline organisational procedures to achieve constructive coordination among different stakeholders and other units to ensure systematic management of organisation.

# Monitoring systems help MUTEC Microfinance assess and manage financial performances

Respondents were asked whether monitoring systems help MUTEC Microfinance assess and manage financial performances so the right improvements are made. Their responses were as summarized in the table 7.7.

# Table 7.7: Monitoring systems help MUTEC Microfinance assess and manage financial performances.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 15.2 | 15.2 |
|  | Disagree | 8 | 12.1 | 27.3 |
|  | Neutral | 7 | 10.6 | 37.9 |
|  | Agree | 30 | 45.5 | 83.3 |
|  | Strongly Agree | 11 | 16.7 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

According to findings in table 7.7, the majority 41(62.2%) of the respondents were in agreement that monitoring systems help MUTEC Microfinance assess and manage financial performances so the right improvements are made. This has helped the microfinance to be competitive, productive and effective than other microfinance institutions in Burundi. Though, 7(10.6%) were not sure and 18(27.3%) of the respondents disagreed. Therefore, monitoring financial performance creates more certainty and confidence in making both short and long term decisions. This in turn leads to a healthier business and faster growth rate. It also allows microfinance to outperform and outmanoeuvre competitors who fail in this regard.

# MUTEC Microfinance has Monitoring & Evaluation Plan

A monitoring and evaluation (M&E) plan is a document that helps to track and assess the results of the interventions throughout the life of a program. When respondents were asked whether MUTEC Microfinance has M&E plan, including M&E policies, work plan to ensure financial performance. Their responses were as shown in the table 7.8:

# Table 7.8: MUTEC Microfinance has Monitoring & Evaluation Plan

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 15.2 | 15.2 |
|  | Disagree | 6 | 9.1 | 24.2 |
|  | Neutral | 6 | 9.1 | 33.3 |
|  | Agree | 32 | 48.5 | 81.8 |
|  | Strongly Agree | 12 | 18.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Research findings in table 7.8 indicate that 44(66.7%) of the respondents generally agreed that MUTEC Microfinance has M&E plan, including M&E policies, work plan to ensure financial performance. This implies that M&E plan help program staff decide how they are going to collect data to track indicators, how monitoring data analyzed, and how the results of data collection disseminated both to the donor and internally among staff members for program improvement. Though, 6(9.1%) were not sure and 16(24.2%) of the respondents were in disagreement. Therefore, it is important to develop an M&E plan before beginning any monitoring activities so that there is a clear plan for what questions about the program need to be answered.

# Monitoring enable managers to monitor activities more systematically

Respondents were asked whether monitoring system enable managers to monitor activities more systematically, and also to follow up on the results of those activities. Their responses were as reflected in the table 7.9.

# Table 7.9: Monitoring system enable managers to monitor activities more systematically

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 17 | 25.8 | 25.8 |
|  | Disagree | 1 | 1.5 | 27.3 |
|  | Neutral | 10 | 15.2 | 42.4 |
|  | Agree | 22 | 33.3 | 75.8 |
|  | Strongly Agree | 16 | 24.2 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Result of findings in table 7.9 present that 38(57.5%) of the respondents were in agreement that monitoring system enable managers to monitor activities more systematically. the purpose of  monitoring is to alert microfinance on activities that are unusual or potentially suspicious and require further examination. However, 10(15.2%) were not sure and 18(27.3%) of the respondents disagreed. Monitoring should help to ensure that there is a robust system in place to monitor every little intervention and activity of the microfinance and evaluate their success.

# FINANCIAL PERFORMANCE

This section presents the dependent variable of the study. Several questions were asked in respect to this variable and the findings, their analysis and interpretation are presented below.

# Internal control system has led to improved accountability

Respondents were asked whether the internal control system has led to improved accountability in MUTEC Microfinance and their responses are as summarised in the table 7.10.

# Table 7.10: Internal control system has led to improved accountability

|  | | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly Disagree | 7 | 10.6 | 10.6 |
| Disagree | 10 | 15.2 | 25.8 |
| Not sure | 4 | 6.1 | 31.9 |
| Agree | 23 | 34.8 | 66.7 |
| Strongly Agree | 22 | 33.3 | 100.0 |
| Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

From table 7.10, the findings reveals that 45(68.1%) of the respondents were in agreement that the internal control system has led to improved accountability in MUTEC Microfinance. This reveals that objective assurance and consulting activity designed to add value and improve MUTEC’s accountability, has helped the company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of financial management, control, and governance processes. However, 17(25.8%) of the respondents disagreed and 4(6.1%) were not sure. This implies that to less extent the internal audit department fails to enhance MUTEC Microfinance accountability.

# Internal control system has led to proper allocation of fund

On the question whether the internal control system has led to proper allocation of funds in MUTEC Microfinance, their responses are as reflected in the table 7.11.

# Table 7.11: Internal control system has led to proper allocation of fund

|  | | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly Disagree | 6 | 9.1 | 9.1 |
| Disagree | 5 | 7.6 | 16.7 |
| Not sure | 4 | 6.1 | 22.8 |
| Agree | 28 | 42.4 | 65.2 |
| Strongly Agree | 23 | 34.8 | 100.0 |
| Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Findings from table 7.11 indicate that the majority of 51(77.2%) of the respondents generally agreed that there is proper management of funds at the MUTEC Microfinance. This implies that there is proper allocation of funds in company operations. However, 11(16.7%) of the respondents were in disagreement and 4(6.1%) were not sure on the statement. This means that there is some improper allocation of funds in the Company. This includes; fund embezzlement, purchasing expensive and luxury assets, increasing salaries, among others, which has contributed to improper financial management.

# Internal control system has led to proper utilization of resources

Respondents were asked whether the internal control system has led to proper utilization of resources in MUTEC Microfinance and their responses were indicated in the table 7.12.

# Table 7.12: ICS has led to proper utilization of resources

|  | | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly Disagree | 11 | 16.7 | 16.7 |
| Disagree | 8 | 12.1 | 28.8 |
| Agree | 18 | 27.3 | 56.1 |
| Strongly Agree | 29 | 43.9 | 100.0 |
| Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

In table 7.12, the findings reveals that the majority 47(71.2%) of the respondents were in agreement that internal control system has led to proper utilization of resources in MUTEC Microfinance. This reveals that the MUTEC complies with financial policies and procedures such as laid down in the Shell Financial Accounting regulations 2002, Internal Audit Manual, among others, However, 19(28.8%) of the respondents were in disagreement. This implies that the internal auditing departments have not ensured that there is proper utilization of resources in the company. From interview with some respondents, it was revealed that this may account for the poor financial management and performance in the MUTEC Microfinance - Burundi.

# Internal control system has led to proper financial monitoring

On the question whether the internal control system has led to proper financial monitoring in MUTEC Microfinance, their responses are as shown in the table 7.13.

# Table 7.13: Internal control system has led to proper financial monitoring

|  | | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly Disagree | 8 | 12.1 | 12.1 |
| Disagree | 11 | 16.7 | 28.8 |
| Not sure | 5 | 7.5 | 36.3 |
| Agree | 21 | 31.8 | 61.2 |
| Strongly Agree | 21 | 31.8 | 100.0 |
| Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Table 7.13 indicates that 42(63.6%) of the respondents agreed that the internal control system has led to proper financial monitoring in MUTEC Microfinance. This implies that internal control system has proper financial monitoring to ensure compliance with Company regulations and adherence to policies, to ensure that Company is financially accountable for funds entrusted to them, and to foster continuous improvement. However, 19(28.8%) of the respondents were in disagreement and 5(7.5%). This reveals that the MUTEC Microfinance still has to improve its financial monitoring to enhance financial performance.

# Effective ICS enhances return on investment and return on assets

Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investment and Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources.  Respondents were asked whether effective Internal Control Systems enhances return on investment and return on assets. Their responses were as shown in the table 7.14.

# Table 7.14: ICS enhances return on investment and return on assets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.7 | 16.7 |
|  | Disagree | 8 | 12.1 | 28.8 |
|  | Neutral | 5 | 7.6 | 36.4 |
|  | Agree | 33 | 50.0 | 86.4 |
|  | Strongly Agree | 9 | 13.6 | 100.0 |
|  | Total | 66 | 100.0 |  |

Source: Primary Data, (2021)

Result of findings in table 7.14 present that the majority 42(53.6%) of the respondents were in agreement Internal Control Systems enhances return on investment and return on assets. However, 5(7.6%) were not sure and 19(28.8%) of the respondents disagreed. Therefore, return on assets (ROA) should shows the percentage of profit a company earns in relation to its overall resources and internal control system should also enhance the amount of return on a particular investment, relative to the investment’s cost.

# Testing Hypothesis 3

This was hypothesis tested the objective three of the study to ensure the relationship between monitoring on the financial performance. Pearson Correlation and regression analysis were used to test the hypothesis and the results are as shown below.

# Correlations

Results of the correlation analysis revealed that there is a significant relationship between monitoring and financial performance, (r=0.888, P<0.005). This analysis is summarized in table 7.15. This implies that monitoring systems help MUTEC Microfinance assess and manage financial performances so the right improvements are made; the results also indicates that monitoring system enable managers and stakeholders to monitor activities more systematically.

# Table 7.15: Correlations between Monitoring and Financial Performance

|  | | Monitoring | Financial Performance |
| --- | --- | --- | --- |
| Monitoring | Pearson Correlation | 1 | .888\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 66 | 66 |
| Financial Performance | Pearson Correlation | .888\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 66 | 66 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

# Model Summary

The above hypothesis was tested and as per the model summary reflected in table 7.16 show *R* square = 0.788 or 78.8% of the observed variability in MUTEC Microfinance uses the various monitoring activities to ensure financial performance. The observed value of 0.788 is significant; there is great transparency and accountability in all operations of MUTEC Microfinance. The Adjusted R2 (0.786) is proportion of the variability in the dependent variable explained by the linear regression. The result shows that there is a relationship between monitoring activities and financial performance at MUTEC Microfinance.

# Table 7.16: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .888(a) | .788 | .786 | .20643 |

a. Predictors: (Constant), Monitoring

# Coefficients

Financial Performance was used as the dependent variable and Monitoring as independent variable. It was established that monitoring (ß=0.888, t=51.621, P<0.005), this MUTEC Microfinance has effective Monitoring and Evaluation Plan including M&E policies, work plan to ensure financial performance.

# Table 7.17: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| --- | --- | --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | -.232 | .072 |  | -3.220 | .002 |
| Monitoring | 1.028 | .020 | .888 | 51.621 | .000 |
|  |  |  |  |  |  |
| a. Dependent Variable: Financial Performance | | | | | | |

# Anova

The analysis-of-variance (ANOVA) table 7.18 was used to test the equivalent positive hypothesis, the F= 2664.702, p<0.005 there is linear relationship between independent variable i.e. monitoring activities and financial performance.

# Table 7.18: ANOVAb

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Regression | 113.554 | 1 | 113.554 | 2664.702 | .000a |
| Residual | 2.727 | 64 | .043 |  |  |
| Total | 116.281 | 65 |  |  |  |
| a. Predictors: (Constant), Monitoring | | | | | | |
| b. Dependent Variable: Financial Performance | | | | | | |

# CHAPTER EIGHT

# HARMONIZATION TOWARDS INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE IN MUTEC MICROFINANCE

# Introduction

Thus chapter presents harmonization towards the internal control system and financial performance in MUTEC Microfinance - Burundi.

# Internal Control System

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm’s objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization’s reputation (Kaplan,2008; Cunningham, 2004; INTOSAI, 2004; Committee of Sponsoring Organizations (COSO), 1992; Auditing Practices Board (APB), 2009).

Effective internal control system operates when some specific procedures are adopted by the management. International Accounting Standards (IAS) categorizes internal control types as a plan of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and record keeping , supervision, authorization and approvals, vocation and rotation of duties, cost feasibility , routine and automatic checks.

# The Effect of Risk Assessment and Control Procedures on the Financial Performance of Microfinance

An organizational risk assessment, broadly defined, is a structured means of identifying, assessing and rating the risks faced by an organization within the context of its financial reporting processes, operations and compliance with laws and regulations (Whittington, 2009). It is designed to provide the organization with a structured means to harvest relevant information necessary to proactively consider the implications of such risks, and what actions, if any, the organization should take to mitigate those risks.

This risk assessment can be used as the foundation of the microfinance or other financial institution in taking, determining and executing the appropriate action or step. At the beginning of the implementation process, risk management is often perceived as an impediment to progress, prolonging the company's internal processes and imposing corporate finances, and other negatives. But, with the passage of time, especially after facing and experiencing the monetary crisis and the global financial crisis, eventually the economic actors recognize that the implementation of risk management in banks or financial institutions has become a necessity, including in seizing business opportunities, not merely to avoid the danger of loss. The Implementation of a good risk management system can control risk and improve financial performance of banks or financial institutions.

Bauer and Ryser (2002) argue that bank applied risk assessment will provide benefits such as; longer-lasting assets, able to monitor information easily so as to predict possibilities such as credit failures and banks can become more leverage to serve customers with monitoring of possible risks, increase its shareholder value, provide an overview to managers of banks about possible future bank losses, improving systematic decision-making methods and processes based on information availability.

An organization’s system of internal control has a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders investment and the company’s assets. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations (Whittington & Pany, 2011). A company’s objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it (John, 2011).

Advance preparation is critical to the successful execution of an effective organizational risk assessment. Since individuals from across organizational functions will be involved, the language used to articulate the components of the organizational risk assessment must be standardized and communicated throughout the risk assessment team, the audit committee and board of directors and the organization as a whole.

Barra (2010) affirms that communicating the definition of inherent risk is a good place to start. This would include the risk to an organization before the application or consideration of internal controls that would alter the underlying risk’s likelihood of occurrence and/or impact. For example, an inherent risk relating to cash is that cash can be easily stolen, temporarily borrowed or misappropriated. Internal controls implemented by an organization to mitigate the inherent risk would have a direct impact on the likelihood that cash balances could be misappropriated or misstated.

A well-structured, comprehensive organizational risk assessment should consider the key business and support functions of the organization and measure the inherent risks associated with those functions over a spectrum of broad risk factors (Barra, 2010). Create a comprehensive list of the significant processes and key support functions for your organization.

# The Effect of Control Environment on the Financial Performance of MUTEC Microfinance.

Whittington and Pany (2011) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles).

Control environment has several factors, however, for purposes of this research, the review will focus on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and board of directors. For purposes of the study, board of directors will be represented by the Board of Management and the various committees of the Board (Verschoor, 2009).

Whittington & Pany (2011) also believe that these factors set a basis upon which the other internal control components can be built. They also provide a framework within which the other components operate. However, these assertions have not always held true, since management in organizations has always overridden these controls, the lack of mentoring has always led to collapse of controls. The independence of audit committee has largely been theoretical in most organizations. Boards of management have on several occasions had very little time for institution affairs, implying that their supervisory role has always been wanting.

Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization’s integrity and ethical values in maintaining an effective control system (Verschoor, 2009).

To trigger independence of auditors, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 78. 24 This statement requires auditors to perform procedures on every audit to enable them to understand their client’s control environment including integrity and ethical values. In other words, auditors are specifically required to determine whether their clients’ ethical controls are operating. SAS No. 78 points out those ethical values and other elements of the control environment permeate the culture of an organization and affect the strength of all other controls

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of internal control (Muraleetharan, 2010). Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

Management should identify what information is needed at each level of the organization to fulfill the objectives and complete the control activities. Does the organization have an information system capable of capturing data from relevant internal and external sources and transforming that data into quality information? The organization should develop information management policies and procedures to ensure appropriate data governance.

Organization-wide communications should address the organization’s objectives, internal control policies/procedures necessary to meet said objectives, and the expectation of personnel at all levels to communicate significant internal control matters to appropriate parties. Consideration should be given to the method used to disseminate information (e.g., in-person meetings versus email), in relation to the importance of the information being shared (e.g., significant organization changes versus monthly financial reporting).

The upward exchange of information is as critical as the downward exchange. As such, management and those charged with governance should discuss any significant internal control matters at appropriate intervals. Employees should have access to those charged with governance without management interference (Muraleetharan, 2010). This will help to encourage communication of matters employees may not typically be comfortable communicating to management. The organization should offer alternative channels for anonymous or confidential communications.

Outbound and inbound communication with external parties, such as customers, members, regulators, and vendors; although the tenets regarding the appropriate methods, channels, and frequency of communication are the same, the information being sent and received differs. The organization must understand what it is required to communicate by law (e.g., audit results, data breaches, etc.). It should also consider what information it would like to communicate with outside parties (e.g., announcements on organizational changes). Lastly, the organization should have appropriate channels in place to receive information from external parties. For example, it may consider offering a secure information portal to exchange sensitive data with its customers, members, or vendors. Once the information has been received, the organization should have processes in place to review and respond appropriately.

Considering these principles and executing formal policies and procedures on information and communication as they relate to internal controls will support the entire organization’s control functions and is key to a strong internal control environment.

# The Effect of Monitoring on the Financial Performance:

# Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, standard-setting bodies, or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate (Barra, 2010).

Lindsay and Brownell (2018) affirm that monitoring internal controls is essential to ensure controls are operating efficiently. Monitoring involves the use of evaluations by management and third-parties of the controls in place to identify issues and communicate these issues to the appropriate parties for corrective action to be taken. Implementing a competent monitoring system can be incredibly cost-effective to your organization in resolving issues timely and efficiently.

Microfinance organization’s monitoring system may consist of ongoing activities, separate evaluations, or a combination of the two; all of which are focused on your organization’s identified risks (Lindsay and Brownell (2018). Management should emphasize a general ethical environment through daily actions and behavior, and setting “the tone at the top” as it is more commonly referred to, can help to ensure that the assessment procedures in place are being followed with diligence. Setting a schedule for daily, weekly, and monthly monitoring techniques is imperative. Management must also hold its team accountable for understanding issues identified and a timeline for corrective improvements.

Just as control activities help to ensure that risk management actions are carried out, monitoring helps to ensure that control activities and other planned actions to effect internal control are carried out properly and in a timely manner, and that the end result is effective internal control.  Ongoing monitoring activities evaluate and improve the design, execution and effectiveness of internal control. Separate evaluations, on the other hand, such as self-assessments (done by department employees) and internal audits, are periodic evaluations of internal control components resulting in a formal report on internal control (Corporate Finance Services, 2019).

# Financial Performance

Positive financial performance in microfinance institutions can be achieved by eradicating waste in benefits services processes and systems. The “critical success factor” for a manufacturing firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical. The information obtained from a sound internal control system as reflected from financial statements will provide a report on a company’s financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions (Glendinning, 2008; Davies, 2007).

Organizational performance encompasses accumulated end results of all the organization’s work processes and activities. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment. Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth (Gerrit and Abdolmohammadi, 2010).

According to Donald and Delno (2009), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Gerrit and Abdolmohammadi (2010)contends that, performance is measured by either subjective or objective criteria; arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

Brennan and Soloman (2008*)* found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart and Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Brennan and Soloman (2008) however, mention other financial measures to include value of long-term investment, financial soundness, and use of 30 corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Donald and Delno (2009) mention accounting based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

# MULTIPLE REGRESSION ANALYSIS

The hypothesis was tested to be acquainted with relationship between Internal Control System and Financial Performance. The hypothesis was tested with a multiple regression analysis.

The multiple regression model with all the three independents variables produced R² = 0.878, F = 927.233, p <.0.005. As can be seen in table 7.1, risk assessment and control procedures [β=614, t-statistic=.2.060, p=0.044], control environment and information & communication [β=.554, t-statistic=1.313, p=0.194] and monitoring activities [β=1.146, t-statistic = 9.754, p=0.000] indicating that Internal control systems improved financial performance of MUTEC Microfinance.

# Table 8.1: Multiple Regression Model

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| --- | --- | --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | .306 | .093 |  | 4.296 | .002 |
| Risk Assessment and Control Procedures | .594 | .191 | .614 | -2.060 | .044 |
| Control Environment and information & communication | 554 | .193 | .554 | 1.313 | .194 |
| Monitoring | 1.192 | .122 | 1.146 | 9.754 | .000 |
| R=.889a, R Square=.790, Adjusted R Square=. 792, F= 927.233 | | | | | | |
| a. Dependent Variable: Financial Performance | | | | | | |

# Correlations

Results of the correlation analysis revealed that there is a significant and positive relationship between ICS and financial performance of MUTEC Microfinance. It was revealed that, risk assessment and control procedures (r=0.869, P<0.005), it was also evidenced that control environment and information & communication (r=0.872, P<0.005) and monitoring activities presents (r=-0.888, P<0.005) indicates that the relationship between ICS and Financial Performance of MUTEC Microfinance.

# Table 8.2: Correlations between ICS and Financial Performance of MUTEC Microfinance – Burundi.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Risk Assessment and Control Procedures | Control Environment and Information & Communication | Monitoring Activities | Financial Performance |
| Risk Assessment and Control Procedures | Pearson Correlation | 1 | .895\*\* | .886\*\* | .869\*\* |
| Sig. (2-tailed) |  | .000 | .000 | .000 |
| N | 66 | 66 | 66 | 66 |
| Control Environment and Information & Communication | Pearson Correlation | .895\*\* | 1 | .885\*\* | .872\*\* |
| Sig. (2-tailed) | .000 |  | .000 | .000 |
| N | 66 | 66 | 66 | 66 |
| Monitoring Activities | Pearson Correlation | .886\*\* | .885\*\* | 1 | .888\*\* |
| Sig. (2-tailed) | .000 | .000 |  | .000 |
| N | 66 | 66 | 66 | 66 |
| Financial Performance | Pearson Correlation | .869\*\* | .872\*\* | .888\*\* | 1 |
| Sig. (2-tailed) | .000 | .000 | .000 |  |
| N | 66 | 66 | 66 | 66 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | | | |

# CHAPTER NINE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

This chapter presents the summary of findings from the field, basing on the study objectives; it also presents the conclusions and recommendations made to advance Internal Control System on Financial performance of Microfinance Institutions in Burundi, focusing on MUTEC Microfinance.

# Summary of Findings

A total of 80 questionnaires were distributed to the selected respondents in the study area. Out of the 66 questionnaires that were distributed, 66 questionnaires were fully completed and returned to the researcher and therefore considered for data analysis. This suggests a 97% response rate. This response rate was deemed to be appropriate since Kothari (2004) asserts that any response rate of 82.5% is adequate, while a response rate greater than 65% is very good.

The study used field data collected from semi-structured questionnaires. Quantitative data was analyzed using descriptive statistics while qualitative data was analyzed using content analysis. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 25). Analysis was, then, based on descriptive statistics. Multiple regression analysis was used to establish the relationship between internal controls system and financial performance of MUTEC Microfinance. The findings from the study were as follows:

**The effect of risk assessment on the financial performance of MUTEC Microfinance**

Findings on objective one reveals that results of the correlation analysis indicated that there is a significant and positive relationship between risk assessment and control procedures and financial performance (r=0.869, P<0.005). The result indicates that risk assessment and control procedures improve financial performance of MUTEC Microfinance.

The alternative hypothesis was tested and in the model summary in the table 5.12 reflect that *R* square of 0.840 of the observed variability indicates that MUTEC Microfinance to ensure effective financial performance. The observed value of 0.755 or 75.5% is quite big; indicating that the linear regression model does fit. The Adjusted R2 (0.753) is proportion of the variability in the dependent variable explained by the linear regression. The result shows that risk assessment and control procedures improve financial performance.

**Effect of control environment on the financial performance of MUTEC Microfinance**

The correlation analysis on second objective revealed that there is a significant and positive relationship between the control environment and information & communication (r=0.872, P<0.005). This analysis is summarized in the table 6.11. This implies that MUTEC Microfinance has set of standards and structures that provide the basis for carrying out internal control.

The model summary reflected in the table 6.12 shows *R* Square of 0.760 or 76% of the observed variability indicates that control environment and information and communication on the financial performance of MUTEC Microfinance. The observed value of 0.872 is quite big and significant. The Adjusted R2 (0.759) is proportion of the variability in the dependent variable explained by the linear regression. The result shows that control environment and information and communication improve financial performance of MUTEC Microfinance.

**Effect of Monitoring on Financial Performance of MUTEC Microfinance**

The study findings on third objective indicated that there is a significant relationship between monitoring and financial performance, (r=0.888, P<0.005). This analysis is summarized in the correlation table 7.15. This implies that monitoring systems help MUTEC Microfinance assess and manage financial performances so the right improvements are made; the results also indicates that monitoring system enable managers and stakeholders to monitor activities more systematically.

The model summary reflected in table 7.16 show *R* square = 0.788 or 78.8% of the observed variability in MUTEC Microfinance uses the various monitoring activities to ensure financial performance. The observed value of 0.788 is significant; there is great transparency and accountability in all operations of MUTEC Microfinance. The Adjusted R2 (0.786) is proportion of the variability in the dependent variable explained by the linear regression. The result shows that there is a relationship between monitoring activities and financial performance at MUTEC Microfinance.

**Conclusions**

The conclusions were drawn from the above the findings;

**Risk Assessment on the Financial Performance of MUTEC Microfinance.**

The study concluded that MUTEC Microfinance has defined appropriate objectives; identifies risks that affect achievement of the objectives; has a criteria for ascertainment of which fraud-related risks to the organization are most critical. MUTEC Microfinance has put in place mechanisms for mitigation of critical risks that may result from fraud and has clear separation of roles and every employee’s work check on the others. The study found out that corrective action is taken to address weaknesses and employees are trained to implement the accounting and financial management system and MUTEC Microfinance has a well-developed Chart of Accounts and it is impossible for one staff to have access to all valuable information without the consent of senior staff; it was discovered that controls are in place to exclude incurring expenditure in excess allocated funds.

**Control Environment on the Financial Performance of MUTEC Microfinance.**

The study concluded that MUTEC Microfinance has set of standards, processes, and structures that provide the basis for carrying out internal control across the organization; MUTEC Microfinance demonstrates a commitment to integrity and ethical values; management of MUTEC Microfinance establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. the study revealed that the board of directors demonstrates independence from management and exer­cises oversight of the development and performance of internal control.

The study further concluded that MUTEC Microfinance demonstrates a commitment to attract, develop, and retain com­petent individuals in alignment with objectives; MUTEC Microfinance holds individuals accountable for their internal control responsibili­ties in the pursuit of objectives. MUTEC Microfinance has identified individuals who are responsible for coordinating the various activities within the entity. All employees understand the concept and importance of internal controls including the division of responsibility; communication helps to evaluate how well guidelines and policies of the organization are working and being implemented and the reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization.

**Monitoring on the Financial Performance of MUTEC Microfinance**

Thirdly, the study concluded that there are independent process checks and evaluations of controls activities on ongoing basis; Internal reviews of implementation of internal controls in units are conducted periodically and monitoring has helped in assessing the quality of performance of the organization over time; management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports; it was also discovered that there is great transparency and accountability in all operations of MUTEC Microfinance and there is effective resource allocation at MUTEC Microfinance.

The study further concludes that MUTEC Microfinance gather, disseminate and utilise information and data to improve their internal operations; monitoring systems help MUTEC Microfinance assess and manage financial performances so the right improvements are made and MUTEC Microfinance has M&E plan, including M&E policies, work plan to ensure financial performance; monitoring system enable managers to monitor activities more systematically, and also to follow up on the results of those activities.

# Financial Performance

The study concluded the internal control system has led to improved accountability; proper management of funds; proper utilization of resources; proper financial monitoring in MUTEC Microfinance and effective internal control system enhances return on investment and return on assets.

# Recommendations

With reference to the study findings and conclusions provided, the following recommendations were given for policy improvement; control environment has a positive significant relationship with financial performance. The microfinance institutions should therefore ensure suitable control environment for security of the operation activities. The management specifically senior risk manager and senior operations manager of the MUTEC microfinance should therefore put in place effective and efficient security network to reduce frequent theft, threat to the bank operations and property.

The study recommends that the Board of Directors of MUTEC Microfinance should monitor and supervise to ensure that all accounting staff complies with accounting regulations and requirements to ensure proper implementation and compliance with accounting standards and principles. MUTEC Microfinance should develop a mechanism to incorporate relevant feedback from the various stakeholders into their internal control system.

There is need therefore for the microfinance to ensure suitable environment where internal controls are supported for improved performance of MUTEC microfinance.

Risk assessment has a positive significant relationship with financial performance. It is therefore important for Mutec microfinance to implement proper risk assessment to guide their operations. Internal controls are the key to the operations of the MUTEC microfinance. To ensure effective controls, the microfinance’s’ management specifically the senior audit manager should facilitate conduction of regular checks on the ability of the strategies in place for internal controls in regards to efficient risk assessment. Therefore, the MUTEC microfinance should regularly check on their operations and the policies to deal with threats to examine whether these meets all the banks’ requirements to safeguard the microfinance from losses.

The recommends that the Information and communication framework of organisations operating in the hospitality industry should be regularly upgraded to enable them cope with the frequent changes in the global environment and as such improve their financial performance. MUTEC Microfinance can take advantage of emerging trends in information and communication like the internet and social media to enhance their visibility and as such increase their clientele base and their financial performance.

Information and communication has a positive significant relationship with financial performance. For MUTEC microfinance to realize continued growth and improved performance, their information and communication systems efficiency is essential. The study recommends that there is need for proper checks and balances in all financial transactions in the microfinance where the microfinance’ management specifically senior risk manager should organize regular training for the staff on risk assessment and control mechanism towards effective security to the microfinance’ operations.

Control activity has a positive significant relationship with financial performance. There is need for the MUTEC microfinance to implement efficient control activities to guide their operations. The microfinance’ management specifically the senior human resource manager should examine the level of employee integrity in allocating them responsibilities especially where employees are to deal with confidential information involving the microfinance’ vital documents.

There is need therefore for the MUTEC microfinance’ management specifically the senior risk manager to ensure that there are policies in place guiding the banks’ dealing with threats to the microfinance’ operations. MUTEC prudential regulations have a significant influence on the relationship between internal controls and financial performance. The MUTEC should ensure that the policies in place are strictly adhered to by the MUTEC microfinance to safeguard their operations. Also, the MUTEC should provide more training to the MUTEC microfinance’ management on the effective monitoring strategies and policies that they should apply to ensure increased profitability of the microfinance.

Management of MUTEC Microfinance should continually imbibe the attitude of designing and maintaining sound control environment as the success of their business depends to a significant extent on the strength of the control environment. This can be done by ensuring that: there is a culture of integrity and ethical behaviour within the organisation, the directors and audit committee meet regularly to appraise the performance of the organisation, competent personnel are engaged and their competence continually improved to make them perform better as well as designing appropriate human resource policies to motivate employees.

Management and those charged with governance of MUTEC Microfinance should always be alert to all possible circumstances (business risks) that may threaten the entity’s ability to achieve its objectives. This can be achieved through regular assessment of the operating environment of the organization to identify threats arising from competition, legislation, technological changes, etc.; the internal audit unit can assist in this regard.

# Areas for Further Research

The current study focused on internal control systems and financial performance of microfinance institutions in Burundi, focusing on a case of Mutualite D’epargne Et De Credit (MUTEC SA). Due to the innovative nature of the microfinance sector, a similar study should be conducted after a period of five (5) years in order to investigate whether there are any areas of commonalities or unique factors. This is because the level of technology in microfinance sector is very dynamic and keeps on changing. It would be interesting to conduct a study on the effect of internal control systems on financial performance of investment microfinance in Burundi.

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# APPENDICES

# APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE

## This questionnaire is designed to collect data on to assess the effect of internal control systems of financial performance in microfinance organization: a case study of MUTEC Microfinance in Burundi. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful way possible. Your participation in facilitating this study will be highly appreciated.

**SECTION A: Demographic Information**

1. What is your gender? (please tick appropriately)

|  |  |
| --- | --- |
| Male |  |
| Female |  |

2. What is your highest level of education? (please tick appropriately)

|  |  |
| --- | --- |
| Certificate |  |
| Diploma |  |
| Undergraduate degree |  |
| Masters |  |
| PhD |  |
| Others specify |  |

3. What is your age bracket? (please tick appropriately)

|  |  |
| --- | --- |
| 20 to 29 |  |
| 30 to 39 |  |
| 40 to 49 |  |
| 50 and above |  |

4. How long have you been working with MUTEC Microfinance? (Please tick appropriately)

|  |  |
| --- | --- |
| 1-2 years |  |
| 3-4 Years |  |
| 5-7 Years |  |
| 8-10 Years |  |
| 11 and above |  |

5. What is your Marital Status?(please tick appropriately)

|  |  |
| --- | --- |
| Single |  |
| Married |  |
| Divorced |  |
| Widower |  |

6. What is your position employee?(please tick appropriately)

|  |  |
| --- | --- |
|  |  |
| Manager |  |
| Monitoring and Evaluation |  |
| Internal Control Team |  |
| Director Manager |  |
| Support Staff |  |
| Information Technology |  |
| Audit committee |  |

**SECTION B: THE EFFECT OF RISK ASSESSMENT ON THE FINANCIAL PERFORMANCE OF MUTEC MICROFINANCE.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | MUTEC Microfinance has defined appropriate objectives. |  |  |  |  |  |
| 2. | MUTEC Microfinance identifies risks that affect achievement of the objectives. |  |  |  |  |  |
| 3. | MUTEC Microfinance has a criteria for ascertainment of which fraud-related risks to the organization are most critical. |  |  |  |  |  |
| 4. | MUTEC Microfinance has put in place mechanisms for mitigation of critical risks that may result from fraud. |  |  |  |  |  |
| 5. | MUTEC Microfinance has clear separation of roles and every employee’s work check on the others. |  |  |  |  |  |
| 6. | Corrective action is taken to address weaknesses and Staff are trained to implement the accounting and financial management system |  |  |  |  |  |
| 7. | MUTEC Microfinance has a well-developed Chart of Accounts and it is impossible for one staff to have access to all valuable information without the consent of senior staff. |  |  |  |  |  |
| 8. | Controls are in place to exclude incurring expenditure in excess allocated funds. |  |  |  |  |  |
| 9. | Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given. |  |  |  |  |  |
| 10. | MUTEC Microfinance’s security system identifies and safeguards organizational Assets. |  |  |  |  |  |

**SECTION C: THE EFFECT OF CONTROL ENVIRONMENT ON THE FINANCIAL PERFORMANCE OF MUTEC MICROFINANCE.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | MUTEC Microfinance has set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. |  |  |  |  |  |
| 2. | MUTEC Microfinance demonstrates a commitment to integrity and ethical values. |  |  |  |  |  |
| 3. | Management of MUTEC Microfinance establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. |  |  |  |  |  |
| 4. | The board of directors demonstrates independence from management and exer­cises oversight of the development and performance of internal control. |  |  |  |  |  |
| 5. | MUTEC Microfinance demonstrates a commitment to attract, develop, and retain com­petent individuals in alignment with objectives. |  |  |  |  |  |
| 6. | MUTEC Microfinance holds individuals accountable for their internal control responsibili­ties in the pursuit of objectives. |  |  |  |  |  |
| 7. | MUTEC Microfinance has identified individuals who are responsible for coordinating the various activities within the entity. |  |  |  |  |  |
| 8. | All employees understand the concept and importance of internal controls including the division of responsibility. |  |  |  |  |  |
| 9. | Communication helps to evaluate how well guidelines and policies of the organization are working and being implemented. |  |  |  |  |  |
| 10. | The reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization. |  |  |  |  |  |

**SECTION D: THE EFFECT OF MONITORING ON THE FINANCIAL PERFORMANCE OF MUTEC MICROFINANCE.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | There are independent process checks and evaluations of controls activities on ongoing basis. |  |  |  |  |  |
| 2. | Internal reviews of implementation of internal controls in units are conducted periodically and monitoring has helped in assessing the quality of performance of the organization over time. |  |  |  |  |  |
| 3. | Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports. |  |  |  |  |  |
| 4. | There is great transparency and accountability in all operations of MUTEC Microfinance. |  |  |  |  |  |
| 5. | There is effective resource allocation at MUTEC Microfinance. |  |  |  |  |  |
| 6. | MUTEC Microfinance gather, disseminate and utilise information and data to improve their internal operations. |  |  |  |  |  |
| 7. | Monitoring systems help MUTEC Microfinance assess and manage financial performances so the right improvements are made. |  |  |  |  |  |
| 8. | MUTEC Microfinance has M&E plan, including M&E policies, work plan to ensure financial performance. |  |  |  |  |  |
| 9. | Monitoring system enable managers to monitor activities more systematically, and also to follow up on the results of those activities. |  |  |  |  |  |

**SECTION E: FINANCIAL PERFORMANCE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | The internal control system has led to improved accountability in MUTEC Microfinance. |  |  |  |  |  |
| 2. | The internal control system has led to proper management of funds in MUTEC Microfinance. |  |  |  |  |  |
| 3. | The internal control system has led to proper utilization of resources in MUTEC Microfinance. |  |  |  |  |  |
| 4. | The internal control system has led to proper financial monitoring in MUTEC Microfinance. |  |  |  |  |  |
| 5. | Effective internal control system enhances return on investment and return on assets. |  |  |  |  |  |

## *Thank you for your participation*

# APPENDIX II

# INTERVIEW GUIDE

1. How do you understand the term internal control systems and financial performance?
2. What are the effects of risk assessment and control procedures on the financial performance of MUTEC Microfinance?
3. What are the effects of control environment and of information and communication on the financial performance of MUTEC Microfinance?
4. What is the effect of monitoring on the financial performance of MUTEC Microfinance?